Austria	Sch22	Indonesia	Rp3100	Portugal	Esc100
Bahrain	Din0.650	Israel	NS3.50	S.Arabia	Rls6.00
Belgium	BFr48	Italy	L1600	Singapore	S$4.10
Canada	C$1.00	Japan	Y600	Spain	Pta125
Cyprus	C£0.75	Jordan	Fils.500	Sri Lanka	Rup30
Denmark	DKr9.00	Kuwait	Fils.500	Sweden	SKr8.00
Egypt	E£2.25	Lebanon	SL125.00	Switzerland	SFr2.20
Finland	Fmk7.00	Luxembourg	LFr48	Taiwan	NT$85
France	FFr6.50	Malaysia	Rm4.25	Thailand	Bht50
Germany	DM2.20	Mexico	Pes300	Tunisia	Din0.800
Greece	Dr100	Morocco	Dh6.00	Turkey	L500
Hong Kong	HK$12	Netherlands	Fl3.00	UAE	Dh6.50
India	Rup15	Norway	Nkr8.00	USA	$1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,330 — Monday September 7 1987 — D 8523 A

American economy: inflationary fears revisited, Page 19

World News

Ozal sets November poll date for Turkey

Turkish Prime Minister Turgut Ozal announced he would call early general elections in November. He was speaking after a referendum on the restoration of political freedom to leaders banned under military rule.

Analysts suggested that, by announcing his intention before the outcome of the referendum was known, Ozal had strengthened his position whatever happened. Ozal's main rival, Suleyman Demirel, would be a beneficiary in the event of a "yes" vote in the referendum. Page 20

Chad strikes Libya

Chadian officials said that their troops had overrun a major Sahara desert air base on their first strike deep into Libyan territory. Page 3

Mengistu warning

Ethiopia would face further food shortages in 1988 despite rain in August, head of state Mengistu Haile Miriam said.

Polish march halted

Police broke up a march by 3,000 people in Miedzyrzecz, western Poland, in protest against plans to dump nuclear waste there.

Danish right tipped

Opinion polls and British bookmakers pointed to a third successive victory for the Conservative-led ruling coalition in tomorrow's Danish general election.

Burundi calm

Major Pierre Buyoya, who seized power in Burundi last week, said his coup had been peaceful, but communications with the outside world remained cut.

Soviet war games

About 14,000 East German and Soviet troops began military exercises south of Berlin, the East German official news agency reported.

Cuba jails ex-official

Luis Orlando Dominguez, former president of Cuba's civil aeronautics institute, was sentenced to 20 years in jail for embezzling public funds.

Rangoon student riot

Rangoon University was closed after student riots in protest at a government order that three denominations of banknotes were no longer legal tender.

Austria accused

US Ambassador to Vienna, Ronald Lauder, said Austrians silently encouraged anti-semitism by sweeping it under the carpet.

Warsaw debt talks

Uruguayan Foreign Minister Enrique Iglesias left Poland after four days of talks on foreign debt problems.

Alfonsin's challenge

Argentines were voting in national elections viewed as the stiffest test faced by President Raul Alfonsin since the restoration of democracy in 1983.

US prison record

The number of inmates in US prisons had swollen to a record 570,519, the US Justice Department reported.

Three dead in Sudan

Three people were killed in student demonstrations in central Sudan, the Egyptian news agency MENA reported.

Richest entertainer

Comedian Bill Cosby, with earnings of at least $57m this year, was the world's highest-paid entertainer, Forbes magazine reported.

Yugoslav protests

Protesters hurled rocks at the windows of bakeries in southern Yugoslavia owned by ethnic Albanians, apparently in retaliation for last week's killing of four soldiers by an ethnic Albanian.

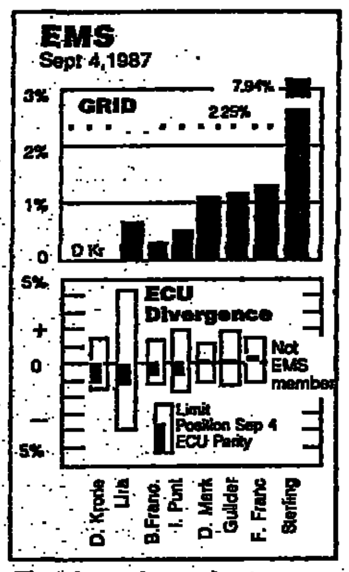
Business Summary

Hanson acquires stake in Midland

HANSON TRUST, UK industrial conglomerate, has purchased just over 5 per cent of shares in Midland Bank, the troubled British clearing bank. Hanson confirmed the stake worth in excess of £100m ($165m).

The company described the purchase as "an investment" but declined to say whether part of the interest was held in the form of options.

EUROPEAN Monetary System: Renewed dollar weakness prompted concern in the EMS last week. There were fears that its decline against the D-Mark would increase pressure on the weaker members, such as the Danish Krone and Belgian franc.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (Ecu), itself a basket of European currencies.

BRAZILIAN officials have opened discussions with foreign bankers and governments on its plan to convert half its $68bn debt into tradeable securities. Two top negotiators saw Midland Bank chairman Sir Kit McMahon in London last night and are due to meet other senior British bankers and Bank of England officials today. Page 20

PORTUGAL'S economy is growing faster than forecast,with its gross domestic product for 1987 likely to grow by 4.6 per cent,highest growth rate in Europe,instead of the expected 3.7per cent. Page 2

HEINEKEN, Dutch brewing group with worldwide interests, reported virtually stagnant first-half earnings of Fl 119.4m ($58.8m) and the year's profits are expected to show little change. Page 23

BLUE ARROW, recruitment agency group,has succeeded in its bid for Manpower ,the world's largest employment agency, clearing the way for a rights issue to fund the bid. Page 24

SINGAPORE Stock Exchange's new rules for settlement of transactions, which come into force today, have drawn a mixed response from London international brokers. Page 23

TOKYO: The rise in the US Federal Reserve discount rate from 5.5 per cent to 6 helped cause a drop of 366.68 points in the Nikkei index, which closed at 25,355.35 in Saturday's half-day session. World stock markets, Page 33

SANTA FE Southern Pacific, which is under federal orders to dismantle its rail network, has decided to sell the 13,000-mile Southern Pacific railroad. Page23

ROBECO, Dutch investment group, is to establish a direct sales centre in Paris,in its first attempt to build a marketing operation in another European country. Page 21

CZECH Premier Lubomir Strougal has warned Communist officials against dragging their feet on far-reaching economic reforms. Page 4

Italian executives accused of Mideast arms exports

BY ALAN FRIEDMAN IN MILAN

MR FERDINANDO Borletti, one of Italy's leading industrialists, was arrested at the weekend in connection with what Italian authorities believe to be a major international arms and drugs smuggling operation.

The scandal threatens to dwarf all previous allegations of Italian involvement in arms traffic with the Middle East.

It brings together in a single investigation Mr Borletti, a director of the Turin-based Fiat group, a Brescia arms company 50 per cent owned by Fiat, the Sicilian Mafia, a network of arms shipments to Iran by way of Spain, Turkey, Nigeria and Syria and even the supply of arms to Islamic terrorists operating in Europe.

On Saturday an investigating magistrate in the Tuscan port of Massa Carrara announced the issue of arrest warrants for 45 people, including Mr Borletti, who is chairman of Valsella Meccanotecnica, the Brescia-based producer of land and sea mines that is 50 per cent owned by the Fiat group. The company is alleged to have shipped huge quantities of mines to the Khomeini regime in Iran by way of cover companies in Spain, Turkey, Nigeria and Syria.

Mr Borletti, 65, whose own company has two Fiat executives as board members, is accused of illegal arms exports and association with criminal organisations.

Yesterday's arrest of Mr Borletti, who is also chairman of the company which publishes Il Sole 24 Ore, the leading Italian business paper, sent shock waves through the world of Italian finance and industry. Along with Mr Borletti - taken into custody on Friday night as he was preparing to leave his villa near Padua for a business trip to Vienna - most of the top management of Valsella has been arrested and transferred to a prison in La Spezia, for interrogation which begins today.

The arrests follow an 18-month investigation that began after the December 1985 Arab terrorist attack at Rome's Fiumicino airport. According to Mr Augusto Lama, the main investigating magistrate, there is documented proof that the Brescia company's management was aware of the clandestine shipment of mines to Iran.

Mr Lama called in the Italian secret services for assistance after being unable to decipher codes used in telephone conversations that were intercepted between Valsella executives and Mr Aldo Anghessa, an Italo-Swiss arms trafficker. Mr Anghessa was waiting at the Adriatic port of Bari last week for the arrival of a Beirut-based ship - the Boustany One - which was impounded by police upon its arrival on Thursday and found to contain missiles, bazookas, grenade launchers said to be destined for European-based terrorists. It also contained two kilos of pure heroin, 15 kilos of hashish and a small quantity of opium destined for the Mafia clan which assisted the shipment.

Although Mr Anghessa (whose code name is "Gianni") fled the police in Bari, he left behind in his hotel room a valise full of documents implicating Mr Borletti and others in an international arms intrigue. Whatever Mr Anghetta's role in the import of arms for terrorists or drug smuggling may have been, it is believed that this had nothing to do with the alleged shipment of mines from Valsella to Iran.

According to the investigating magistrate the intrigue saw Valsella exporting thousands of mines to Iran from 1981. The judge said the mines were despatched first to companies in Spain, Turkey and Nigeria, then re-exported to Syria and finally delivered from Damascus to Iran. Meanwhile, a Mafia clan based at Trapani, on the west coast of Sicily, provided logistical assistance to a fleet of ships from the Middle East which brought supplies into Italy for use by Islamic terrorists in Europe.

In Turin, a Fiat spokesman told Italian newspapers on Friday that "we know nothing about what is happening". A series of hurried meetings were said to have been held at Fiat late on Friday night and Saturday morning, following Mr Borletti's

Continued on Page 20

Kuwait prepares for retaliation after expelling Iranians

BY OUR FOREIGN STAFF IN THE MIDEAST, WASHINGTON AND LONDON

KUWAIT was yesterday bracing itself for further missile attacks, possible acts of sabotage and deeper involvement in the Iran-Iraq war following its weekend decision to expel five Iranian diplomats.

The Kuwaiti Government believes Iran fired three missiles - probably Chinese-made Silkworms - at its territory between last Wednesday and Saturday, opening a new phase in the war and further worsening relations between Iran and the Arab Gulf states. This is Iran's first reported hostile use of Silkworms, which the US has repeatedly warned Tehran against deploying.

Kuwait has complained publicly about one attack in which a missile damaged houses and industrial facilities on its southern coast early on Friday - narrowly missing a large Kuwaiti oil installation 28 miles south of Kuwait city.

The government subsequently summoned ambassadors from the five permanent members of the UN Security Council to launch a protest against what was termed Iranian aggression and gave five Iranian diplomats a week to leave the country.

Mr Mir Hussein Mousavi, the Iranian Prime Minister, warned in Tehran yesterday that Iran would respond in due course but did not specify what action would be taken.

A Western official in Kuwait described the missile attacks as 'very provocative' and said they indicated the lengths to which Iran was prepared to go in attempting to intimidate Iraq's Gulf allies. The move is also bound to increase US concern about the war, since Washington has pledged to support to the Arab Gulf states.

Many Gulf states are now showing a specific interest in buying mine counter-measure ships from the UK, the chief British arms salesman said yesterday. Mr Colin Chandler, head of the defence export services organisation, said Britain would "almost certainly not allow sale even of essentially defensive systems like minesweepers to either Iran or Iraq". He refrained from commenting on any such sales to other Gulf states.

Details, Page 8

However, General Vernon Walters, US Ambassador to the UN, yesterday studiously avoided any suggestion of a military response. He said the US naval presence in the Gulf was designed to protect freedom of navigation and rejected the idea that Washington was charged with protecting Kuwait. US officials, including White House Chief of Staff Howard Baker, said earlier this year that the US would bomb the Silkworms if they became operational but they were then referring to missiles stationed at the Strait of Hormuz and directed at Gulf shipping.

Iranian leaders have repeatedly threatened to retaliate against Iraq's supporters on the Arab side of the Gulf, especially Kuwait, if the Iraqis resumed air strikes against Iranian economic targets. Iraq began attacking maritime targets in the Gulf on August 29 after a six-week lull. It claims to have carried out 15 strikes in the past week.

Western officials said Friday's attack, by demonstrating that Iran could hit industrial installations, added significantly to nervousness in Kuwait, which is the most vulnerable of the Arab Gulf states because of its close proximity to the battlefront between Iran and Iraq. 'If the attacks continue, it is only a matter of time before they score a direct hit,' one observer said.

The Silkworm missiles, which have a range of about 50 miles and carry 500 kg of explosives, are assumed to have been fired from the nearby Faw peninsula, which Iran has occupied since early 1986. Equally worrying for Kuwait are persistent, apparently Iranian-inspired acts of sabotage, of which the latest may have caused three weekend fires that broke out at Kuwait University.

The latest twist to the Gulf conflict came as Mr Javier Perez de Cuellar, UN Secretary-General, prepared to leave for Tehran later this week in an effort to secure implementation of the July 20 Security Council resolution ordering a ceasefire.

Senior Western officials acknowledge the difficulty of Mr Perez de Cuellar's mission in view of Iran's persistent refusal to end the war without clear international condemnation of Iraq for starting it.

Iran is, however, widely expected to try to engage in negotiations with a view to reviving Mr Perez de Cuellar's two-year-old peace plan which aimed at step-by-step progress towards a full ceasefire. Gen Walters said yesterday: "I think they (the Iranians) will try and stall."

US to seek tougher Cocom sanctions

By Lionel Barber in Washington

THE PENTAGON is seeking support under the Cocom agreement for tougher sanctions against companies selling sensitive technology to the Soviet bloc.

The proposals would require the 15 Cocom members - including the US, its Nato allies and Japan - to harmonise rules for granting export licences and penalties for breaching them. Cocom co-ordinates policies relating to the exports of strategically sensitive equipment to the Soviet bloc and certain other countries.

More controversially, the Pentagon would like to create an international blacklist whereby a businessman indicted for export offences in one Cocom country would be automatically denied an export licence by the others. Dr Stephen Bryen, deputy under-secretary for trade and security policy at the Pentagon and the man pushing the administration's plan, said: "We must have tougher enforcement of Cocom rules, and (that means) a discriminatory view of licence applications."

Dr Bryen said the recent furore over the Toshiba-Kongsberg sale of sophisticated milling machines to the Soviet Union could have been avoided with better scrutiny of export licences.

But he said he was more concerned about the lack of uniformity in the laws of Cocom members, and cited the example of a German businessman who, despite a 60-count US indictment for conspiring to ship high-technology equipment to the Soviet bloc, was able to engage in similar business in West Germany

Dr Bryen's proposal is certain to touch off opposition, particularly in countries such as the UK and West Germany

Prisoner release could help set Mandela free

BY ANTHONY ROBINSON IN JOHANNESBURG

AN EXCHANGE of prisoners due to take place today between Angola and South Africa could help break Pretoria's political log-jam by paving the way for the release of Mr Nelson Mandela and other leaders of the banned African National Congress (ANC).

The exchange in Mozambique follows weeks of secret negotiations between the foreign ministers of six countries, including the Netherlands and France.

It entails the release of Major Wynand du Toit, captured by Angolan troops in the oil-rich Cabinda enclave in May 1985. In return, Angola will obtain 133 government soldiers captured by the South African-backed Unita rebel movement headed by Mr Jonas Savimbi.

Unita leader Jonas Savimbi: persuaded

In addition, South Africa will release two Europeans, Mr Klaas de Jonge from the Netherlands and Mr Pierre Andre Albertini from France, suspected by Pretoria of aiding the ANC.

The freeing of Major du Toit could pave the way for the release of Mr Mandela because of a pledge made by President P. W. Botha last year. At the opening of parliament on January 31 he offered to release Mr Mandela if the Soviet Union freed two leading dissidents, Dr Andre Sakharov and Mr Anatoly Shcharansky, and Angola released Major du Toit.

Moderate black leaders have refused to join Mr Botha's proposed National Statutory Council or participate in negotiations about power sharing until Mr Mandela is freed.

Release of the two Europeans will remove diplomatic embarrassments which have soured French and Dutch relations with South Africa.

Mr de Jonge was accused by Pretoria of smuggling arms for the ANC and has been holed up in the old Dutch Embassy in Pretoria after escaping from his police guard two years ago. His former wife Mrs Helena Tastoors was jailed for 10 years on treason charges.

Mr Albertini, a French aid worker, was jailed in the Ciskei homeland earlier this year after refusing to give evidence in the trial of alleged ANC 'terrorists'.

In addition to Major du Toit, South Africa will also receive the bodies of two soldiers killed during what Pretoria describes as a reconnaissance mission aimed at investigating an alleged ANC training camp. Angola describes it as a failed sabotage mission against the US-run oil installations in Cabinda.

South Africa managed to persuade Mr Savimbi to release the captured Angolan soldiers despite the stepping up of a two-pronged offensive by Angolan government forces, backed by Cuban and Soviet advisers, against Unita positions in southern Angola.

Bonn may offer Honecker economic aid at summit

BY DAVID MARSH IN BONN

THE BONN government is likely to offer Mr Erich Honecker, the East German leader, trade and investment help in exchange for the easing of border restrictions during his landmark visit to the Federal Republic which starts today.

The five-day visit, the first by an East German head of state to the western half of the divided nation, opens a new chapter in the tortured relationship between the two countries, mirroring the recent strengthening of general East-West detente.

The West German Government, worried about the political implications of receiving Mr Honecker in Bonn, has warned repeatedly in recent weeks against "overburdening" the summit with exaggerated expectations.

In sheer protocol terms, Mr Helmut Kohl, the Chancellor, has to perform a delicate balancing act. West Germany will provide the Communist leader with a welcome - complete with military honours, official flag-flying and lunch today with President Richard von Weizsaecker - which meets East Germany's requirement to be treated as a separate sovereign state.

Bonn is treating Mr Honecker with a great deal more respect than when he was originally due to come in 1984, but is still trying to keep alive its official line that the two states are part of the same country which will one day be reunited.

Mr Honecker, accompanied by a large delegation of ministers, officials and journalists, will approve three inter-government accords on the environment, scientific cooperation and nuclear reactor safety.

The journey has generally been viewed positively by West German public opinion. But because of possible attempted disruption by extremists security will be intense, with 2,000 police likely to be called out today for his protection in Bonn.

An important theme is certain to be Bonn's desire to improve conditions for the much-increased number of East German travellers now permitted to make temporary trips to the West.

Mr Kohl is under pressure from the right wing of his Conservative-led coalition to avoid making undue concessions to East Berlin. The Chancellor said at the weekend he would be asking Mr Honecker to end orders to border guards to shoot East Germans trying to escape across the Iron Curtain.

Bonn officials are wary of establishing a direct link between commerce and human rights. But the West Germans are clearly using the prospect of economic assistance as an indirect bargaining counter. Apart from offering improved opportunities for East German goods sales to West Germany, which have fallen in the last two years, Bonn is holding out the prospect of agreements on electricity supplies, improved railway links and on environmental technology.

Mr Honecker, 75, has built his career on allegiance to hard-line Stalinism, but now has a reputation as a pragmatist. He faces a packed programme of meetings with the cream of West Germany's politicians, industrialists and cultural figures.

He will visit the birthplaces of Karl Marx and Friedrich Engels, as well as the site of the Dachau concentration camp, and make a sentimental return journey to his native Saarland. His sister Gertrud, 70, who still lives in the modest family home in the village of Wiebelskirchen, will welcome him for coffee and cakes - heavily guarded by security men - in a private visit on Thursday.

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Andrew Gowers talks to Yassir Arafat, chairman of the PLO, Page 15

OVERSEAS NEWS

Buoyant Portugal forecasts higher growth

BY OUR LISBON CORRESPONDENT

THE PORTUGUESE economy is growing so fast that the authorities have had to revise upwards their forecast for growth in Gross *Domestic Product* from 3.7 per cent to 4.8 per cent, the highest projected rate in Europe.

This growth is underpinned by investment growth of 14 per cent (compared with a forecast of 9 per cent), with growth in real wages of 3.5 per cent and private consumption racing ahead by 5 per cent.

Inevitably, revival of investment and consumption after the 1983-85 slump, has driven up imports. These are expected to grow 15 per cent in volume this year, compared with 10 per cent growth in export volume.

Officials are pleased that export growth is stronger than expected. It had been assumed that Portuguese industry would falter in the face of aggressive EC competition, but it has rallied well.

A rising trade deficit would hurt the current account more, officials say, were it not for the highest ever influx of foreign exchange from tourism, emigrants' remittances and new foreign investment.

Officials expect invisible earnings to offset trade deficits and yield a current account surplus of about $500m (£303m)—a third of the 1986 surplus, but enough to keep at bay memories of 1982 when import-fuelled consumption drove the current account $3.2bn into the red.

Currency reserves reached $2.5bn this month, an unprecedented level in Portugal, which used to think itself lucky to have $300m in currency reserves.

Reserves now cover three to four month simports and hold the net foreign debt nearer to total gold reesrves ($10bn), plus currency. Gross foreign debt, once 72 per cent of GDP, is now about $16.5bn or 45 per cent of GDP.

Senior officials stress that a large factor in the rise of private consumption is the flow of EC funds for projects co-financed by the state.

In 1987 Portugal will get $300m for agriculture, infrastructure, new jobs and small and medium companies. The funds have stimulating consumption so that farmers and businessmen with more disposable income from higher and better production are rushing to buy durable goods. The government is worried about overheated consumption and keeping a close watch.

Meanwhile, annual average inflation *in August* dipped below 10 per cent for the first time in 13 years. The Government now believes it can achieve its *1987* target of 9 per cent or less, compared with 28 per cent in 1983.

Portugal's weak spot is its dependence on *imported* oil, the prices of which could skyrocket, pushing import costs in a rapidly-expanding economy to perilous levels.

If so, a proud government may have to do something it has been able to avoid until now: tapping a $1bn *facility* the EC set aside to help with post-accession balance of payments difficulties, so far staved off.

Everyone expected Portugal to need to draw on this facility long before now. Officials do not conceal their glee in having *not* yet *touched* a cent of it.

Pragmatic privatisation in view

Diana Smith reports on the Portuguese PM's plans for a profound reform of business

ON JULY 19, Mr Anibal Cavaco Silva and his reform-minded Social Democrats won the biggest general election landslide in Portuguese *history* and *one of Europe's largest majorities.*

Mr Cavaco Silva intends to break, once and for all, with nationalisations of the 1970s, and with deep-rooted older traditions of excessive reliance by timorous private business on public subsidies. The left can no longer block radical changes to its sacred cows—the massive State-run sector, rigid labour laws and collectivised agriculture.

The prime minister spent part of the weekend telling the Financial Times, in unprecedented detail, what he wants for the public sector. Since the 1975 revolution, the taxpayer has been lumbered with 53 nationalised corporations, *900* indirectly nationalised companies and an accumulated loss in the public sector equivalent *to $7bn—which is equal to about* a third of GDP.

Mr Cavaco Silva classifies the public sector in three groups—*public services, corporations* that compete on domestic or foreign markets but are in serious difficulties, and corporations that compete on markets but are in generally good shape.

The first group—the service companies — will "remain public sector enterprises now and in future," he said. These are enterprises such as urban the Post Office and Telephone transport and rail services, to corporation, and TAP/Air Portugal, the national airline.

Keeping these companies under State control does not exclude releasing a minority part of their capital in the case of companies benefiting from major technological advances, *like the telephone company,* although there *is* no plan at present to *hive off* any of their capital, the *prime minister* said.

The second group—the problem companies—have to clear up their financial situation or be restructured before the government contemplates privatising them. "They are in no fit state to have their shares quoted on the stock market at present," he said. Companies in this situation—targets for major restructure or sweeping *financial* improvements — include Electricidade de Portugal, the electricity corporation, Quimigal, the corporation *for chemicals,* fertiliser and base metals, Siderurgia Nacional, the national steel corporation, and *Setenave, the shipyard* based at Setubal.

"We will be studying various options of how to deal with these companies. We have to look at Setenave for instance, and decide if *it* is worth keeping up as a shipbuilding yard or repair yard, or perhaps see if some foreign buyer would be interested in it one day," Mr Cavaco Silva said.

The third group—the companies in reasonable shape—is the one where "capital can be privatised. They are competitive, they don't have financial problems and they don't need restructuring," he added.

This group includes the State-owned breweries and *tobacco company, cement* manufacturers, pulp and—*probably*—banks. Only a minority of capital would be privatised initially. "We plan to start privatisation before the review of the Constitution."

The Communist-inspired Constitution of 1976 defined the nationalisations of the year *before as* "untouchable." Lawyers insist, however, that assets, not the companies themselves, were nationalised and so there is no hindrance to offering up to 49 per cent to the public at large through public offer of sale or stock exchange quotation, with reservation in *some cases of part of* the shares for employees of these concerns.

"We can only privatise a *minority of* shares before the constitutional review (due next year) and, in some cases, we are going ahead with this. The process will be gradual and carefully analysed. We shan't rush onto the market with a dozen companies in one go — rather be careful about it. We have four years to get on with it," the prime minister said.

Before long, the Government will present a draft Bill to Parliament, *where it* holds *148* of the 250 seats, and where, in principle, the opposition Socialists are amenable to privatisation as long as it is done carefully and case by case. The government will propose minority privatisation of *efficient, competitive companies.*

"After the Constitutional review — when, we hope, the nationalisations clause will be *eliminated*—we can let private capital take a majority," he added.

The idea "is to pulverise *capital, not concentrate it. So* we must establish beforehand the limit to amounts acquired by any one body or group, and *hold foreign participation,* which in principle is welcome, to a maximum of 10 per cent or so," Mr Cavaco Silva said.

Intrinsic to the streamlining of the public sector, and of private *industry,* is a *shift* in labour laws that, in the old days, made it too easy to sack a worker on flimsy grounds and, after the revolution, too hard to do so on any grounds.

This led to a plethora of short contracts which hurt workers and management alike in the Prime Minister's view. Workers feel insecure and management does not invest in job training.

He wants to alter labour laws so that companies whose markets have shrunk for one reason or another can lay off workers, individually or collectively. However, the laws must never make it easy for a worker to be sacked for personal or political reasons, he insisted.

Praising the UGT, the non-Communist trade union federation that has been negotiating with management in the Social Bargaining Council for the past two years, Mr Cavaco Silva expressed the hope that the Communist-dominated confederation, the CGTP, would change its mind and agree to join the council. The Prime Minister wants to see labour *law* and social security packages negotiated peacefully in a tranquil climate, and he believes the *population also wants an end* to the labour unrest of the past.

The focus of the new mood in Portugal, the prime minister *believes,* is privatisation and encouragement of private investment, especially by young business people, who have "*different attitudes—more innovative,* open to risk and less inclined to wait about for government handouts and subsi*dies which solve nothing.*"

Danish love of cosiness overrides poll razzmatazz

BY HILARY BARNES IN COPENHAGEN

"THE CAMPAIGN'S disappeared," said a recent headline in a Copenhagen newspaper. With no fewer than 16 parties contesting tomorrow's election for the Folketing (Parliament) the campaign trail has indeed become diffuse.

Asked last Thursday what he thought was most interesting about the election campaign, Prime Minister Poul Schlueter, who has headed a four-party coalition for the past five years, promptly replied: "That it's so uninteresting." Who is better *placed to judge?*

THE non-socialist Danish parties are heading for a 51 to 49 per cent majority in tomorrow's election to the Folketing, according to a weekend opinion poll, but the number of parties represented could increase from one to 10 and possibly 11, writes Hilary Barnes. Prime Minister Poul Schlueter's *four-yearly, non-socialist* coalition would be able to continue in office, but its parliamentary position would be *weakened.* The coalition would not only need the support of the Radical Liberals, which it has enjoyed since 1982, but also of the tax-protest Progress Party.

Radical leader Niels Helweg Petersen has predicted that this would lead to parliamentary chaos *and* a new election within months.

The Greens are set to gain *representation,* and a Communist party, Common Cause, led by the leader of the Seaman's Union, Mr Preben Moeller Hansen, may just *clear the necessary two* per cent of the votes barrier as well, according to the poll.

The Danes do not go in for all the razzmatazz associated with elections in larger *countries, which* always makes Danish elections relatively low-profile affairs.

Perhaps it is best explained through a concept which is central to the *Danish way* of life: *hygge,* roughly translated as "cosiness." It pervades politics as well in a country where compromise between government and opposition is more normal than confrontation.

Hygge dictates — or perhaps it is just the sheer *number of* parties — that candidates rarely hold an election meeting on their own. They invite a bunch *of candidates* from other parties along, too, and confront the voters together.

Even television tries not to break the spell. The main half-hour evening news bulletin on the one-channel State system has resolutely relegated campaign stories to the end of the programme, rating sty-comfort for bacon pigs and other such stories as being of somewhat more import.

The distance between the political extremes in Denmark is slight. Serious, and above all divisive, debate is not the stuff of which Danish elections are made.

This has been a one-issue election campaign: should Mr Schlueter and his "four-leaved clover" (the coalition of Conservatives, Liberals, Centre Democrats and the Christian People's Party) be allowed to soldier on, or should Mr Anker, his Social Democrats in alliance with the more full-blooded socialists of the *Socialist* People's Party, be given another chance?

The verdict of the opinion polls *is* that Mr *Schlueter's* chances are good and that Mr Anker's are slight to non-existent. But the opinion polls cannot be counted on, as the polling organisations themselves would be the *first to admit,* because with *nine* parties already in the Folketing and 16 fighting for seats, the margin is so small that the result can easily be tipped one way or the other by the unexpected or unforeseen.

Six of the parties which do not stand a serious chance of winning seats are leftist, including four varigated Communist parties. So if half of the 5 per cent or so of the voters who are *thinking of casting* a vote for these outsiders switch to one of the two main socialist parties, the socialists would win.

One issue that has moved the electorate is the Government's decision to cut the budget for *education and* social welfare. All over the country, municipalities are holding the first readings of the 1988 budget, and everywhere the local politicians, of all parties, are blaming Mr Schlueter — not without cause — for cuts in the budgets for schools, care of the elderly, hospitals, and so on. There is a vein of dissatisfaction here, expressed in a mock vote in an old people's home where every single resident voted socialist, that could yet cause an *upset on polling* day.

Finally, there is Mr Preben Moeller Hansen, leader of the Seaman's Union, *whose Communistic* party, Faelleskurs (Common Cause), could gain a couple of seats by virtue of his almost Irish gift of the gab, and Mrs Pia Kjaersgaard, the head of the Tax Protest Progress Party, whose transparent honesty some find appealing.

Both these parties wan to see Denmark accepting fewer refugees, which the other parties will have nothing *to do* with, but which undoubtedly sounds a response in quite a number of voters.

On *election night, it could* be that Mr Schlueter will have to revise his view that the campaig was not interesting.

Italy to detail Gulf mission plan today

By John Wyles in Rome

THE Italian Government will *today detail its plans for* sending a naval mission to protect Gulf shipping in the fact of left-wing protests and signs of *distinct unease within the leading* coalition party, the Christian Democrats.

The Communists, the main *opposition party supported by* the Radicals, the Greens, and the Proletarian Democrats, have called for a full parliamentary *debate and are insisting* that last Friday's decision be endorsed by a parliamentary vote, although *one* is not required by the constitution. Catholic groups close to the Christian Democrats, meanwhile, distanced themselves from the initiative over the weekend.

The task force marks an important break with post-war Italian foreign policy which has avoided any independent commitment to a foreign theatre.

After weeks of uncertainty, the powerful opposition *to* any naval mission inside the government, led by the Foreign Minister, Mr Giulio Andreotti, was finally broken by last week's attack on an Italian *container ship in the Gulf.* When Mr Bettini Craxi, the former Prime Minister and Socialist leader, called last Thursday for Italian intervention in the Gulf, Mr Andreotti was forced to give way.

It is still not known how many ships *of which type* will be despatched to the Gulf, nor what their responsibilities will be. Nor is it known if their activities will be *co-ordinated* with French and British forces already on station.

WORLD ECONOMIC INDICATORS

RETAIL PRICES (1980=100)

	July '87	June '87	May '87	July '86	% change over previous year
W. Germany	121.3	121.3	121.1	125.0	+0.7
France	167.6	167.2	166.9	162.1	+3.4
Italy	211.2	210.5	209.7	201.3	+4.9
Netherlands	122.1	122.2	122.4	121.6	+0.4
Belgium	145.1	144.6	144.4	142.2	+2.0
United Kingdom	152.3	152.2	152.5	145.9	+4.4
USA	138.2	137.8	137.4	132.9	+4.0
Japan	115.0	115.0	115.9	115.0	0.0

Source: (except US) Eurostat

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Warheads 'no obstacle' to Pershing pact

BY PETER BRUCE IN BONN

Mr Hans-Dietrich Genscher, West German Foreign Minister, said yesterday that US-controlled nuclear warheads on 72 West German Pershing 1A missiles would "naturally" be removed when the missiles were scrapped.

Chancellor Helmut Kohl offered nearly two weeks ago to scrap the missiles, if the US and Soviet Union were to reach and carry out an agreement to destroy all their intermediate nuclear force (INF) missiles. Moscow, however, has since poured cold water on the offer by arguing that the US warheads, and not the missiles, remain problematic.

Mr Kohl's offer was meant to ease the superpowers' INF negotiations in Geneva. Mr Genscher's remarks yesterday, to a conference of his liberal Free Democratic Party (FDP), junior partners in the Bonn coalition, mark the first public West German response to Soviet doubts about the Kohl proposal.

"The chancellor's declaration of August 26, 1987, concerning the Pershing 1As, is a logical consequence of our policies to date," said Mr Genscher. In a pointed reference to objections to the offer from the right wing of the coalition, he added, to great applause, "the declaration is binding for the Federal Republic of Germany.

"Naturally, with the destruction of the 72 German Pershing 1As, the warheads that belong to them will be removed by the US," he said.

Mr Kohl's coalition has been driven since his offer by complaints from the Christian Social Union and its leader, Mr Franz Josef Strauss, that it was not consulted, that the 1As should not be surrendered and that their removal would leave the Warsaw Pact with far more firepower than Nato.

The CSU is boycotting coalition meetings and Mr Strauss has charged that the chancellor did consult Mr Genscher before he made his proposal public.

The foreign minister used his speech here to launch a thinly disguised attack on Mr Strauss without naming him.

"Mechanical calculations of military potential lead to more foolish arms competition. If the double-zero (the global scrapping of all INF weapons) were to fail because of the federal republic, it would not only have angered people in this country, it would have driven a dep devide between us and our compatriots in East Germany," he said.

South Korea to prosecute strikers

By Our Foreign Staff

THE SOUTH KOREAN government has decided to prosecute 166 workers involved in violent strikes following a decision by the Cabinet over the weekend to get tough with strikers.

The group were among about 200 workers arrested on Friday when thousands of riot police raided a shipyard owned by the giant Hyundai conglomerate and a Daewoo car plant.

The decision by the Cabinet to pres for prosecutions is the first sign of a new determination to assert control over the country's deteriorating labour situation ahead of the return to campus, of the country's university students. There is great concern among reformers in Seoul that a coalition between the students and the workers could lead to a military intervention in politics, a move which could ruin last week's accord between the Government and Opposition on constiutional reform.

Prime Minister Kim Chung Yul called for stern punishment for workers involved in violent labour protests. Mr Kim said violent strikes have developed into a "worrisome" situation, with labourers destroying public facilities and engaging in "intolerable" violence.

Since the labour protests began more than a month ago the Government has adopted a largely "hands off" approach to labour disputes, preferring to let companies work out solutions with workers. In the vast majority of cases, which affected small-scale companies, this has worked.

But in the politically and economically sensitive conglomerates, known locally as the (ITAL) chaebol, the Government has shown a greater willingness to intervene and act tough. Officials have intervened to settle dispute and riot police have been dispatched to control strikes.

In the past week thousands of Hyundai workers in the south-eastern industrlay city of Ulsan briefly seized the town city hall, set cars on fire, smashed furniture and mobilised forklifts and cranes for street protests.

Hyundai said on Saturday that its main shipyard where more than 20,000 workers have been on strike, would be closed indefinitely.

The shipyard in Ulsin said it planned to cut off power, water and food to the workers' dormitory from today.

Leslie Colitt reports on a state visit with sentimental overtones

Full honours for 'other' Germany

MR ERICH HONECKER, East Germany's leader, is preparing for the trip of a lifetime, although it will only take him 475 km south-west of East Berlin to the West German capital of Bonn.

Mr Honecker's state visit to Bonn on September 7 will mark a high point in the astonishing career of the miner's son from the Saar, in western Germany, who in 1971 became the leader of East Germany.

When the visit to West Germany was first planned three years ago the ruling Christian Democrats under Chancellor Helmut Kohl did not even want Mr Honecker to set foot in Bonn. They were afraid his presence there would detract from West German's official position which recognises the existence of two German states but within one nation.

In the event President Honecker was prevented from going because of Soviet opposition to West Germany's decision to allow US medium-range missiles on its territory. In the meantime much water has flowed down the Rhine and Elbe rivers and Mr Honecker will be received with full honours in Bonn almost like any other visiting chief of state.

Almost, but not quite. Every step in the President's five-day visit to Bonn, Dusseldorf, Essen, the Saarland, Trier and Munich will be minutely recorded by the official East German media for the benefit of the 17m East Germans at home. The intended message will be clear: West Germany has finally accepted the German Democratic Republic as an equal German state.

Few Germans, East or West, would have dreamt in August 1961 when the Berlin Wall was built, that the man in charge of that incredible operation, Mr Erich Honecker, would one day be welcomed in Bonn as the respected leader of the "other" Germany. But the bitterly resented Wall which split Germany through the heart of its former capital, also served to jolt West Germany into negotiations with East Germany shortly after Mr Honecker came to power.

Their "basic relations" treaty and the four-power Berlin agreement in 1972 led to the establishment of formal relations between Bonn and East Berlin. Although their embassies in Bonn and East Berlin are still called permanent representations, East Germany seems prepared to wait until time wears away Bonn's reservations.

Yet there is no denying a special relationship exists between the two Germanies. Even Mr Honecker, who continues the policy "of ideological demarcation" toward West Germany begun by the late Mr Walter Ulbricht in 1960, repeatedly speaks of the "special responsibility" of the two German states to maintain peace.

The white-haired Mr Honecker, who turned 75 this month to an enormous outpourning of devotion in the official East German media, is apro duct of the German Communist Party of the 1930s. He is ideologically rigid and unswervingly loyal to Moscow.

Thus Mr Honecker cracked down on dissenting writers and artists in the late 1970s, triggering an exodus of talent to the West. His authorities for years refused to permit more than a trickle of East Germans to emigrate to West Germany.

But in a change of tack, East Germany in 1984 allowed a record 40,000 citizens to leave permanently. A year earlier the East German leader startled the Bonn government by receiving Mr Franz-Josef Strauss, the Bavarian Prime Minister, a dyed-in-the-wool anti-Communist.

Mr Strauss had ingratiated himself with East Berlin by backing a DM 1bn government-guaranteed loan to East Germany at a critical moment. The wily Bavarian urged Mr Honecker to let out more East Germans and to remove the thousands of automatic shrapnel weapons at the border designed to stop escapees. The latter wish was also met, but with far more efficient electronic fences erected to stop escapes.

Mr Honecker will fittingly conclude his West German tour with a visit to Mr Strauss in Munich.

Similarly Mr Honecker promised West Germany's then Social Democrat leader, Mr Willy Brandt, in 1985 that more East Germans than ever before would be permitted to visit relatives and friends in West Germany.

Mr Honecker once again made good his promise. Last year 573,000 East Germans below retirement age were allowed to visit West Germany. This year 1m younger East Germans were expected to visit the West in one of the most significant developments since the building of the Wall.

Mr Honecker served nearly 10 years in a Nazi prison for "preparing high treason" in 1935 as a member of the Communist resistance movement in Berlin. As a roofer by trade, he spent the latter part of the war in what he called a "suicide patrol" repairing the roofs of Berlin during Allied bombings and disposing of unexploded bombs with his bare hands. An East German writer who knows Mr Honecker said the experience made him "abhor prisons and war."

Undoubtedly both Mr Honecker's childhood in the economically depressed Saar and his imprisonment by the Nazis steeled him ideologically. But he is an avid viewer of West German television—along with most of his subjects—and has cultivated his ties with the Heimat, which he last saw in 1948.

When Mr Honecker arrives in the Saarland, he will be given a rousing welcome in his birthplace of Wiebelskirchen by a drum and shawn band. Aas a young man he was a drummer in one of the bands which accompanied miners during their demonstrations and was appointed an honorary member of the Wiebelskirchen marching band in 1973.

It is sentimental ties like this to the Saar, where his sister lives, which strike an emotional chord in Germans, East and West.

THE Soviet Communist Party daily, Pravda, on the day before East German leader Erich Honecker visits West Germany, said yesterday that Bonn should fully respect East Berlin's independence, Reuter reports from Moscow.

"The visit has a working character. It became possible thanks to the positive changes in the international situation which are taking place under the influence of the peace initiatives of the socialist countries," Pravda said.

"Political realities demand that Bonn should throw away the ballast of obsolete ideas and unconditionally build relations with East Germany as international law envisages. This means full mutual respect of independence and sovereignty, territorial integrity and non-interference in internal affairs."

Chadian troops take Libyan air base

By Joan Wucher King

THE Chad Government yesterday announced a major incursion into Libyan territory. Chadian troops attacked and held the Libyan air base at Maatan al-Sarra, about 100 km from the disputed border region.

This is the first time that Chad has crossed into Libyan territory, and marks a serious escalation of hostilities between the countries. In August, Chad retook the Aouzou Strip after a 17-year period of occupation by Libya.

Libya's initial response was to refer the dispute to the *Organisation of African Unity* and the United Nations. After a two-week pause, however, Libya began a series of deep raids in Chad, and in late August, claimed to have retaken the Aouzou Strip.

This new assault by Chad is aimed at building up a rear-guard position before its anticipated drive to take back the Strip. Maaten al-Sarra is an important Libyan military base and was a key operating point for its air force's raids into Chad throughout its involvement in the civil war there.

Chad's Ambassador to France, Mr Ahmad Allam-Mi, said yesterday that Chadian forces had destroyed 30 combat aircraft and killed or captured hundreds of Libyan troops at the base, which is known to be heavily defended. The Libyans have admitted the attack on the base, but say that it was repulsed. Ambassador Allam-Mi has indicated that Chad has no intention of holding the base, but wanted to "destroy a principal source of aggression," a reference to the Libyan bombing sorties against Chadian territory in recent weeks.

Prisoner exchange unlikely to entail release of Mandela

BY ANTHONY ROBINSON IN JOHANNESBURG

MAJOR Wynand du Toit is the key figure in the complex multinational exchange of prisoners, due to take place this morning at the airport in Maputo, the Mozambican capital. The bearded South African commando was captured by Angolan forces in May 1985, during an abortive reconnaissance operation in the Cabinda in the far north of Angola. The Angolan government believes the aim was to sabotage oil installations.

His release will not only be a diplomatic coup for South Africa—short of foreign policy successes in recent years—it could also help Pretoria break the logjam in racial politics by paving the way for the release of Mr Nelson Mandela, the leader of the African National Congress, jailed in South Africa.

His release has been demanded by moderate black leaders as the essential condition for an agreement to discuss participation in the government's proposed National Statutory Council and other bodies.

Diplomatic coup

The link between Mr Mandela and Major du Toit was spelled out by President P. W. Botha 20 months ago in a speech to parliament on January 31, 1986. He made then what seemed a bizarre offer to release the ANC leader if the Soviet Union released two leading dissidents—Dr Andrei Sakharov and Mr Anatoli Scharansk—and Angola released the then Capt du Toit.

Since then, Mr Scharansk has been released and allowed to emigrate while Dr Sakharov has emerged to play a key role in a tolerated Soviet opposition.

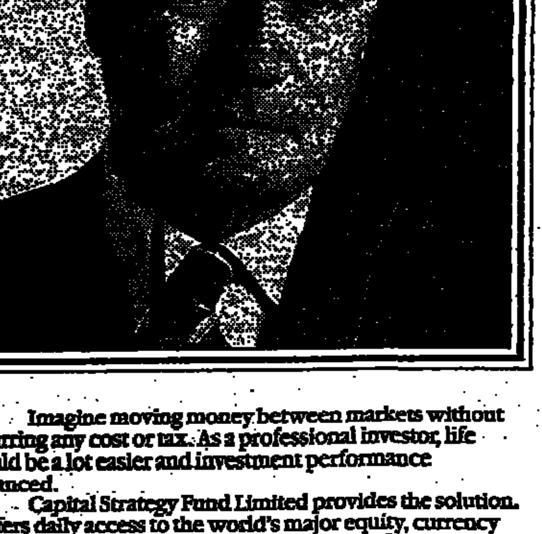
The impending release of the major, and repatriation of the bodies of three South African soldiers killed in Angola, might seem to complete Mr Botha's trilogy.

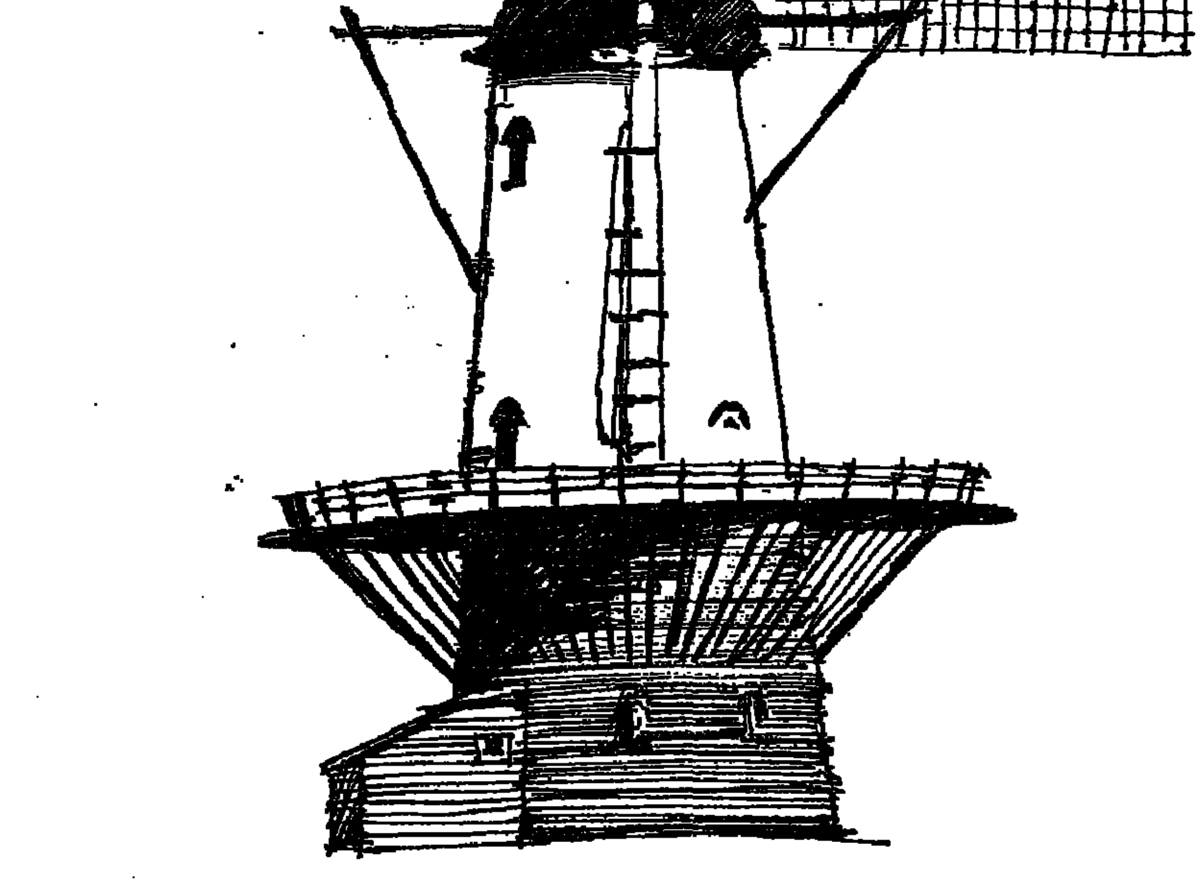
New generation

It is most unlikely, however, that it will lead to the immediate release of Mr Mandela. The government is expected to test the waters first by releasing other ageing ANC stalwarts, such as Mr Govan Mbeki and Mr Walter Sisulu, both of whom have sons in the new generation of ANC leaders-in-waiting.

Their release while the army and police control the South African townships, while the country is under a state of emergency and key organisers in the United Democratic Front (UDF) and other organisations are in detention or under close surveillance, offers a reduced risk of mass demonstrations in the black townships. The inability of the security forces to guarantee on orderly release, and fear of an assassination attempt by white fanatics or black political opponents, have been major factors delaying clemency for ANC leaders.

Last month, however, the forthcoming release of elderly ANC men was aired by Mr Botha in a key policy speech in parliament, when he stated that the government's previous insistence on their renunciation of violence as a precondition of release was no longer "decisive in its own right."





Gandhi opponent sets out to extend influence

BY JOHN ELLIOTT IN NEW DELHI

INDIA'S former finance and defence minister, Mr Vishwanath Pratap Singh, who is trying to topple Mr Rajiv Gandhi from his position as Prime Minister, yesterday drew crowds of tens of thousands of people in rural areas near Bombay and called for Mr Gandhi's immediate resignation.

The meetings in Bombay's state of Maharashtra were significant because they mark an attempt by Mr Singh, who has built up substantial political support and popularity in north India, to extend his influence to other areas, including rural farming communities where *there is growing discontent* about government policies.

Election call

Before he left for the meetings, Mr Singh said Mr Gandhi should resign immediately because he had "lost the confidence of the people" through his handling of corruption allegations over a $1.4bn Bofors gun contract. He would have to go "permanently" if it were found that he, or his friends or relatives, were involved. Mr Singh said: "There is concrete proof of corruption — *Bofors has said that* Rs 500m was paid, that is proven. And the way the Government has behaved gives the impression there is something to hide. "Because of this, Mr Gandhi should resign, or call a general election, or take "drastic action" publicly against those who had received the money.

The pressure on Mr Gandhi is building up to such an extent that there has been discussion recently among politicians and in some Indian newspapers about whether he might step down, even if only temporarily, until the Bofors situation is resolved by current inquiries in Sweden and India.

Although there is no immediate sign of this happening, the man mentioned as a possible replacement is Mr Narayan Datt Tiwari, Finance Minister. He is a loyal elder figure in Mr Gandhi's Congress (I) party and has a strong base in the politically significant northern state of Uttar Pradesh.

The politics of this state have become turbulent in recent weeks because it is also the home base of Mr V. P. Singh who is using it as the centre of his campaign.

Meanwhile Mr Ghandhi, who is preparing a Cabinet and party reshuffle to try to rebuild confidence in his administration, is continuing to run into serious political problems.

Tax raids

Raids by tax enforcement officials last week on offices around the country of the Indian Express newspaper, which is leading the campaign against him, have been widely condemned for being politically unwise as well as for being an attack on press freedom.

The head of the ruling Congress (I) Party in the Uttar Pradesh said yesterday he had resigned to serve on a committee investigating alleged bribes in an army defence contract, Reuter reports from New Delhi.

According to the Press Trust of India, Mahabir Prasad said in the state capital, Lucknow, that he had not yet heard from Mr Gandhi whether his resignation would be accepted.

Barbara Durr assesses Mario Vargas Llosa's tilt against bank nationalisation in Peru

A literary lion growls at State power

MARIO VARGAS LLOSA, Peru's best-known novelist, has become an overnight political sensation. He has taken the helm of a conservative movement opposed to President Alan Garcia's proposed nationalisation of private financial institutions and, in the process, revived a near-moribund right wing.

Tens of thousands of mostly middle-class Peruvians have flocked to hear him at mass rallies in the capital and two provincial cities. His message, elegantly wrapped in literary imagery, is that the bank nationalisation would be the thin end of the wedge for totalitarian control of Peruvian society.

"This measure can corrupt and destroy this domacracy. This is a fragile democracy in a country with enormous social and economic differences, a country without democratic traditions, where institutions are only starting to become democratic," Mr Vargas Llosa said in an interview.

He believes that the concentration of financial power in the hands of the Government would give it the capacity to "impose its will on everybody. For instance, the media cannot survive as independent media if the Government has total control of credit." Without a genuinely free press, the writer believes, Peru cannot have free elections.

Many accuse Mr Vargas Llosa of using loosely absolute definitions of freedom and democracy. Mr Julio Cotler, a wel-known sociaogistl, for example, asks "What freedom is he talking about? The freedom of the poverty-stricken to choose where they can die of hunger?" *Others suggest the* author has lived abroad too long—his works are widely translated in the US and Europe—and is out of touch with Peruvian reality.

Mr Vargas Llosa's message that the Government cannot be trusted has impressed many in Peru, where the State bureaucracy is notoriously inefficient and corrupt. His interpretation of the president's proposal has pushed the political debate well beyond the nationalisation issue itself and helped polarise opinions. One leading daily paper said that the fundamental question is: "What kind of society do we want?"

Mr Vargas Llosa's answer is one of individual freedom, a free market and as little state control as possible. He says Peru must avoid becoming like Mexico, where an "ogre State" dominates. Many commentators, on the left and right, have suggested that the Apra, the ruling party, intends to become as pervasive in Peru as the PRI is in Mexico.

Impassioned

President Garcia, in contrast, sees the State as the agent of social change, to favour the poor. If greater State control is required, so be it, at least while his Apra is in power.

Mr Vargas *Llosa's* warning about State versus society, and Mr Garcia's impassioned rhetoric about rich versus poor, touch deep feelings in distinct parts of Peru's profoundly divided, multi-cultural society.

Mr Cesar Rodriguez Rabanal, a prominent psychoanalyst who has worked in social psychology, says the current debate threatens to upset Peru's pseudo-equilibrium. "The minority who have something to lose feel their privileges are artificial and fragile, because they are based on deep social inequalities. Any change is feared because it may bring down the whole structure," he said.

Privilege is concentrated among those considered "white," mainly of European descent. The vast majority, who are poor, are mainly indigenous people whose ancestors were


President Alan Garcia: Society must change

conquered by European invaders.

The buffer culture of mixed-race people has grown enormously in recent decades, but Mr Garcia is the first mixed-race person to be elected president, and he is determined to break the economic dominance of the white elite in Lima, the capital, and to integrate better the various elements of Peruvian society, so as to favour the poor.

Mr Mirko Lauer, one of the country's top editorial commentators, says that, despite the country's economic problems, Mr Garcia will win the current battle because he is addressing "the political demands of the majority — identity, race and social justice—the things that produce the great Peruvian rage."

This potentially explosive social anger shapes the ideological core of Peru's fanatical guerrilla group, Sendero Luminoso (Shining Path). In its view, the white society of the capital, and that State that has preserved its dominion, must be destroyed before Peru can advance as a nation.

The Government has tried to paint Mr Vargas Llosa as a defender of upper-class privilege — a label the novelist vehemently rejects. "I am not defending the bankers. I am not a banker and I don't own a single share in any kind of enterprise, here or abroad." He argues the State is likely to discriminate against poor Peruvians more than the upper class does now.

"If this measure had been socially oriented in a proper way, and the idea was to democratise the ownership of the banks, *limit* the number of shares, I would have been absolutely in favour. Democratising of property ownership is what we need in Peru," he adds.

Senior government advisers say that the Vargas Llosa phenomenon is likely to be short-lived. They concede that he has regained the substantial ground lost by the right and the centre during the last government, led by President Fernando Belaúnde's Popular Action party. But the thrust of Mr Vargas Llosa's campaign has been directed at influencing the Senate's debate of the nationalisation bill. Once that chamber has passed the bill—which is expected today—and the middle class understands that the measure has a minimal affect on its interests, the stir will die down, one adviser predicted.

Pragmatic bankers have already begun conversations with the Government on indemnification and future investments.

Political observers estimate that, despite the current outpouring of middle-class fears, the conservative parties will find it difficult to win more than their traditional third of the vote in the next elections.

Moreover, Mr Vargas Llosa's success is somewhat embarrassing evidence of the fact that established conservative politicians have not nearly his drawing power. He is charming and eloquent, and attractive because of his independence from any political party. However, he vows he will not run for president in 1970 and that he does not want at all tob e a politician.

"I am a writer. I love my vocation," he says. He was correcting the proofs of his 20th book when he felt compelled to hurl himself into politics. He is uncomfortable with what the political limelight has meant for his personal life.

Phone threats

He and his family have received numerous threatening phone calls and he has been forced to put tight security around his luxurious cliff-side home overlooking the Pacific.

He finds distasteful, too, the ruling party's campaign to discredit him. It has run a multitude of television and newspaper advertisements to denounce him as a political opportunist who once supported Gen Juan Velasco, who ruled from 1968, after a military coup, till 1975.

Mr Vargas *Llosa, who once* considered himself a leftist, admits that he supported some of Velasco's measures, such as land reform, but he also is on record as a critic of the military's takeover of the press.

He points to the campaign against him as evidence of how the Government could censure and financially manipulate any who dare to criticise. In England, where he spends three to four months every year, "there is a sense of fair play; here there is none. All the dirty tricks are used."

Asked if this experience will lead to another book, he says: "For a writer, all experience is good, and bad experiences can be particularly useful." He laughs.

Greeks 'can expect rise in income next year'

By Andriana Ierodiaconou in Athens

GREEK WORKERS can expect an increase in real disposable income in 1988 through pay rises, tax cuts and special productivity bonuses, Mr Andreas Papandreou, the Prime Minister, announced on Saturday.

The eagerly-awaited announcemeant was the highlight of the Prime Minister's annual state-of-the-economy speech launching the International Trade Fair in Salonika.

The announcement on incomes signalled the partial relaxation, but not the end, of *an economic stabilisation* programme launched by the Government two years ago with the aim of reducing inflation and Greece's domestic and external deficits.

The programme hinged on a virtual wage freeze, which will have reduced real average earnings by a cumulative 10 per cent by the end of the year.

Mr Papandreou warned, however, that in lifting the wage standstill legislation and restoring collective bargaining, which has been *suspended* for two years against strong protests from both left and *right-wing* trade *unions*, the Government still expected "a responsible attitude from the representatives of the various social classes" to avoid excessive wage increases which would jeopardise the gains of the past two years.

In 1986, helped by external factors such as the sharp fall in oil prices, the authorities succeeded in reducing inflation to 17 per cent from about 26 per cent the previous year. The net Public Sector Borrowing Requirement was trimmed to 14 per cent of Gross Domestic Product from 18 per cent of GDP and the current account deficit reduced to US$1.7bn (£1bn) from US$3.3bn.

A further improvement, though somewhat short of the target of 10 per cent inflation, *a PSBR of 10 per cent of GDP* and a current account deficit of US$1.25bn, *is* expected this year.

A key theme of the Prime Minister's address was the need for a concerted drive to make the Greek economy more competitive "through the exercise of inventiveness and business enterprise"

Polish reform group takes step forward

BY CHRISTOPHER BOBINSKI IN WARSAW

A NEW independent group, the Economic Society, which aims to foster the ideals of private enterprise and market oriented *reforms*, has taken another step towards official *registration* in Warsaw.

Over 300 people, many of them small-scale private business owners from all over the country, but some also from the state sector and co-operative *enterprises*, crowded into a lecture theatre at Warsaw's agricultural academy for a *founding* meeting.

A similar group in Krakow has been formally registered by the authorities and previous official statements strongly suggest that the Warsaw society will also be successful.

The government has dithered *since last January over whether to give* the go-ahead to the group which contains quite a few prominent names from Solidarity, the banned trade union, while the society's free market commitment means that the decision to recognise the group marks a significant ideological concession by the authorities.

The society aims to lobby for the private sector and speakers at the meeting, held last Friday, made it clear that they wanted pressure put on the government to liberalise the *economy*.

"There really is no need to design any new formula for the economy." Mr Alexander Paszynski, a former journalist and leading light of the society, told the meeting. "All that has to be done is to restore well-tried *mechanisms* once rejected by the socialist economy."

But it was evident that the organisers want to steer clear of politics and concentrate on trying to improve conditions inside Poland by encouraging the entrepreneurial spirit in the private as well as the dominant state sector.

Non-farming private business at present produces around 5 per cent of the national income with over 400,000 small, mostly *family-run* businesses. The Economic Society estimates that around 100,000 private businessmen and large-scale farmers are potential members.

Friday's meeting is also a turning point of sorts as it marks a drawing away from the *main-stream Solidarity* opposition of its more right-wing elements who are ready to play down demands for democratisation in the hope of winning changes in the economy.

"We are not Jacobins and the authorities know that," Mr Janusz Korwin Mikke, *an* avowed liberal economist, told the meeting.

This aspect may well have influenced the government in finally agreeing to the initiative as well as the fact they gain credibility for recent official pledges that market oriented reforms will now be speeded up.

● Polish police broke up a march of about 3,000 people who *protested* yesterday in Miedzyrzecz, western Poland, against plans to dump nuclear waste in the area, witnesses *said*.

At least three men were dragged away by the police at the end of an hour-long march when demonstrators responded to calls to disperse by sitting down in a square in the town centre.

A final *decision* on plans to dump waste from East Bloc nuclear power plants in former World War II bunkers in the Miedzyrzecz lakes region is expected soon. It has been stalled by *previous protests* by local residents.

Irish energy minister hits at Sizewell plan

By Hugh Carnegy in Dublin

REPORTS THAT the Irish Electricity Supply Board (ESB) has contracted some work on Britain's *new nuclear power* plant at Sizewell in Suffolk has provoked an angry reaction from Mr Ray Burke, the energy minister, who is a strong opponent of the British nuclear industry.

An embarrassed Mr Burke said it was "totally unacceptable to me, to the point of incredulity" that the ESB had accepted a contract to design and draw steel support structures for an ancillary building at Sizewell, in conjunction with a Dublin firm.

He had ordered an investigation into the matter. "I can assure the people of Ireland that no Irish state agency will become party to the furtherance of the British nuclear industry in any shape or form," he declared.

Mr Burke is due to meet Mr *Cecil Parkinson, the British* Energy Secretary, on September 16 to press his objections to Sizewell and other British nuclear plants, notably Sellafield on the Cumbrian coast directly opposite Ireland, which the Irish government wants closed.

There is widespread concern in Ireland about British nuclear plants, a factor which could complicate proposals for an electricity interconnector across the Irish Sea which, if ever built, would mean nuclear-generated power coming into Ireland.

Czech officials warned on economic changes

CZECHOSLOVAKIA'S Prime Minister Lubomir Strougal has warned Communist officials against dragging their feet on economic reforms which he described as the most far-reaching since the party took power 40 years ago, Reuter reports from Vienna.

Addressing a Prague rally, Mr Strougal described as "absolutely inadmissible" any attempt to block enterprises from gaining independence as provided under a bill proposed in July.

"The planned changes will be the biggest intervention in the running of the economy since February 1948," he told the Miners' Day gathering, according to a report by the official Ceteka news agency.

The speech came as part of what Western diplomats in Prague saw as an intensified effort by the *Czechoslovak* leadership to show support for reforms by Mr Mikhail Gorbachev, the Soviet leader.

Czechoslovakia has moved to revive the sluggish economy by proposing greater business autonomy and some private enterprise under the measure now under debate. Reform of agricultural co-operatives was proposed last week.

It was "absolutely inadmissible if attempts are being made to prevent directors and workers from giving openly their opinion on the question of independence of their enterprise," Mr Strougal declared.

● Hundreds *of* Austrian and West German demonstrators blocked two border crossings into Czechoslovakia for an hour yesterday to protest against Prague's plans to build a new atomic power plan, Reuter reports.

Kabul timetable on Soviet withdrawal

THE Moscow-backed government in Afghanistan will present a proposed timetable for *the withdrawal of some 115,000* Soviet troops when United Nations peace talks resume on Monday, according to Western and East bloc, Reuter reports from Geneva.

Fixing timings for withdrawal of Soviet troops is the one unsettled *item* in a four-point UN-sponsored plan to end the Afghan war. Soviet troops entered Afghanistan in December 1979 to prop up its communist government.

Differences between Kabul and Pakistan over a Soviet departure narrowed during talks in March.

EC seeks chemicals cut at ozone layer meeting

BY DAVID FISHLOCK IN LONDON

THE EUROPEAN Community is calling for a freeze on the manufacture of chlorofluorocarbons (CFCs) at 1986 levels of production, followed by a cut, perhaps of 20 per cent, in two years' time.

The call will come at the United Nations Environmental Programme meeting in Montreal, starting today, which will debate the convention for the protection of the ozone layer, drawn up in Vienna in 1985.

An EC attempt in 1980 to put a ceiling on production was successful in so far as world production never got near the limit set. But evidence has been found of continuing damage to atmospheric ozone by CFCs.

The chemicals are used widely as aerosol can propellents, as refrigerants for food storage and transport, in air conditioning, electronics manufacture and the blowing of plastic foams.

The EC includes seven nations which produce CFCs and is acting as spokesman for all seven. Other major producers include the US, Soviet Union, Japan and Canada.

The Montreal meeting is expected to be highly contentious, both technically and diplomatically, since some nations will see controls on CFC production as an attempt to hobble their industry.

In the US, the ozone layer has overtaken acid rain as the environmental issue most exercising Congress and the public. But there is also a strong US lobby defending CFCs, and British officials say the US Government has been volatile in its support for curbs proposed by the EC.

The Japanese, who use CFCs extensively as solvents, and the Soviet Union have both been cool about curbs. Any protocol agreed between current producer nations could open opportunities for non-signatories to encourage "CFC havens," from which CFCs could be exported. To prevent this, manufacturers with CFC technology would have to be prevented from allowing its use by non-signatories.

CFCs are very unreactive and safe chemicals and are proving particulary hard to replace in association with food. Any alternative is expected to need seven to 10 years of toxicity testing before it is rated as safe as CFCs, for example in aerosols or takeaway food cartons.

ICI, which with Rio Tinto Zinc is one of Europe's two main manufacturers of CFCs, says it is spending over £1m ($1.65m) a year on research and safety testing into alternatives.

The British Aerosol Manufacturers Association says it fully supports the proposed initiative to limit CFC production by stages over the next decade. More than a third of the aerosols made in Britain use no CFCs, it says.

But it claims that growth in other uses has "already negated much of the savings made by the aerosol industry" since 1985.

Total EC sales of the main CFCs increased by 2.5 per cent between 1976 and 1985, according to the association.

US-Hanoi 'deal' on missing servicemen

THE US will officially encourage charitable aid for Vietnam in return for Hanoi's help in uncovering the fate of Americans still missing from the Vietnam War, the New York Times said, Reuter reports from Washington.

Quoting unnamed US officials, it said the agreement resulted from a visit to Vietnam last month by a delegation led by retired Gen John Vessey to discuss the missing servicemen.

While the agreement falls short of Hanoi's request for economic aid, it is the first time Washington has agreed to provide Vietnam with anything in return for help over the missing servicemen, the newspaper said.

Two US doctors and the head of an international charity visited Hanoi last week as an official US delegation, the newspaper added.

Based on findings from that visit, Washington will issue a report detailing Vietnam's humanitarian needs. The Reagan Administration will also license private organisations to provide charitable relief.

In return, the Administration expects greater co-operation in solving the issue of the more than 2,400 US servicemen still listed as missing from the Vietnam War.

The US State Department had no immediate comment on the report.

Robert Gibbens on the prospects after the Quebec City meeting

Francophone summits still on trial

FOR French President Francois Mitterrand the three-day second Francophone summit in Quebec City last week was another valuable forum for dialogue between the developed and the developing nations of the world.

Many of the African nations at the summit—their use of French confined mainly to governing elites—have more urgent needs. Many are desperately poor, with annual per capita incomes of not much more than US$250. Some come from the African Sahel, where overgrazing and deforestation are contributing to the rapid advance of the desert.

The immense gap between the two Francophone groups was even more obvious at Quebec City than that between the rich and poor of the Commonwealth of former British colonies.

The main items on the agenda of this Francophone summit were agricultural help, energy, communications and culture, the level of world commodity prices and debt repayments. A lot of hard work had been put in by the preparatory team but how effective the new aid programme may prove in countries so different as Zaire, Egypt, Chad and Vietnam is difficult to estimate.

But the presence of Mr Mitterrand and the leading role taken by Mr Brian Mulroney, the Canadian Prime Minister, and Mr Robert Bourassa, Quebec's President, may well have given the Francophone summits an outside chance of survival in parallel with the Commonwealth summits.

The third Francophone summit will take place in Dakar, Senegal in 1989. Hopefully, a permanent Secretariat will be in place by then so that the summits will really be able to win recognition as an important forum of political and economic co-operation as Mr Mulroney hopes. A series of Francophone games on the lines of the Commonwealth Games is also planned.

The second summit had its bizarre moments. One government leader found his picture missing from his hotel suite and Jean Baptiste Bagaza, President of Burundi, became the victim of a coup d'état in his absence.

Much was made of the human rights records of many member countries and Amnesty International made it known that 31 of them had been cited for serious violations.

But large-scale confrontations were avoided and Mr Mitterrand spent the final day of the conference visiting a French-speaking community in New Brunswick, still Canada's only officially bilingual province.

Some of the co-operation programmes proposed were of doubtful benefit to most of the 37 member countries. One proposed access to TV5, the international French-language television network now widely available in Europe. But less than 10 per cent of the people living in the member states have access to television.

'The immense gap between rich and poor nations was more obvious than at meetings of the English-speaking Commonwealth'

The priority for the African states, especially in the Sahel, is for agricultural help and funds to improve basic infrastructure. But international organisations working there for decades have not yet been able to change local government policies that encourage deforestation and drought.

Canada's offer to write off C$325m in debts from seven of the African countries was a useful gesture, as was Quebec's suggestion of a formula to gear Third World debt repayments to the level of world commodity prices.

But the question remains whether Francophone summits can seriously help solve the daunting difficulties of most of the member states, particularly those in Africa, which need extensive help in public health, food production, education communications. To be effective in raising basic living standards new aid programmes must work with a host of international organisations.

If the Francophone summits are to survive, Canada will clearly have to play a leading role, along with France. Dakar will be a very different venue from Quebec City or Paris.

At the first summit in Paris in 1985 the Canadian and Quebec Governments were constantly at odds over protocol.

In Quebec City last week all was sweetness and light between Mr Mulroney and Mr Bourassa, the main architects of the Meech Lake agreement providing a formula for Quebec's acceptances of the Canadian constitution.

For the first time Quebec will be officially recognised as a "distinct" French-speaking society, though responsible for the survival of its English-speaking minority.

Both Mr Mulroney, the federal Conservative leader, and Mr Bourassa the Quebec Liberal leader, were at pains to show that "distinct" means that Quebec will co-operate within the framework of the Canadian Federation and that Meech Lake will not lead to the Seperation of Quebec as Pierre Trudeau, the former Prime Minister, has warned.

Swedish PM makes US visit

BY KEVIN DONE, NORDIC CORRESPONDENT, IN STOCKHOLM

SWEDISH Prime Minister Ingvar Carlsson is to visit the US this week, the first official trip to Washington by a Swedish leader for 35 years.

In the years since the former Swedish Prime Minister Tage Erlander visited President Harry Truman, relations between Washington and Stockholm have often been strained, not least during the premiership of Mr Olof Palme.

Mr Palme's outspoken criticism of US policy in Vietnam chilled relations, and for several periods at the beginning of the 1970s there was no US ambassador in Stockholm.

Mr Palme, who was assassinated by an unknown gunman in February last year, led a torch-light demonstration in Stockholm alongside North Vietnam's Moscow ambassador in 1968 when he was a cabinet minister. Further strain was added at the end of 1972 when Mr Palme compared the USA bombing of Hanoi with atrocities such as Guernica, Sharpeville and Treblinka.

More recently trade relations have come under pressure as US concern grew that Sweden was being used as a conduit for the illegal export of US high technology to the East Bloc and two leading Swedish multinational corporations were fined by the Swedish authorities.

Tougher export regulations were introduced by the Swedish Government last year, however, calming US anxiety and supporting diplomatic activity aimed at re-starting a top level political dialogue.

Mr Carlsson's visit – he meets President Ronald Reagan on Wednesday – will balance that made to Moscow last year, one of his first foreign trips after taking over the premiership.

The absence of bilateral problems between Sweden and the US means the agenda is likely to be dominated by international questions, including southern Africa, the Middle East and Central America.

SHIPPING REPORT

Tanker charter rates tumble

BY LYNTON McLAIN

TANKER OWNERS found increasing difficulty towards the end of last week in finding charterers for their largest vessels, and charter rates tumbled.

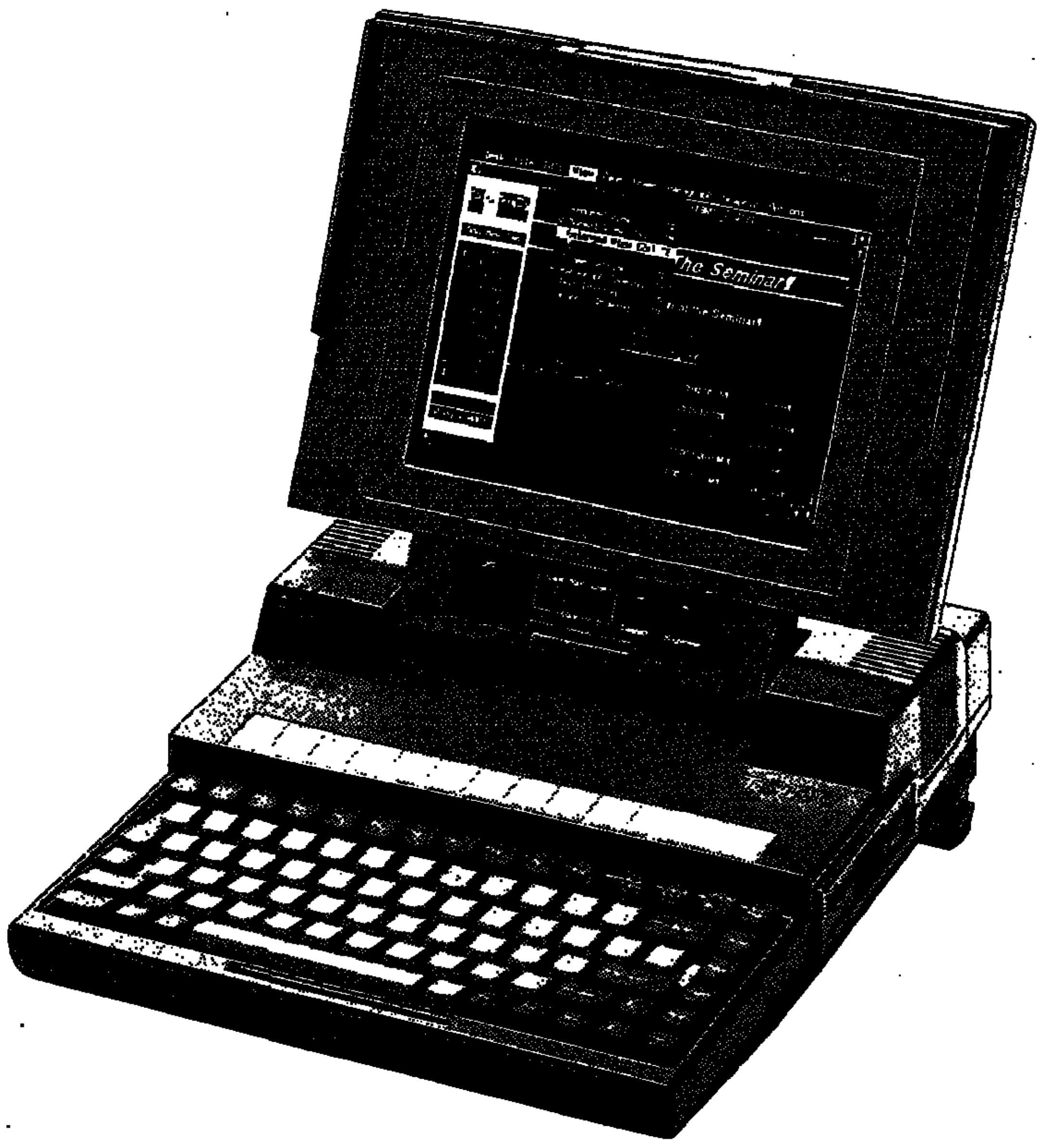
This was in sharp contrast to recent activity in the tanker charter markets, especially in the Gulf, where demand for large tankers had been buoyant despite the attacks on shipping.

This recent increase in activity was attributed by Galbraith's, London shipbrokers, to the increase in production and supply of oil by several oil exporting countries. The increase was seen to be above that permitted by the Organisation of Petroleum Exporting Countries.

Tanker charterers followed suit and kept their storage capacities high. This led to some instability in the price of oil, amid plenty of oil on shore and in transit, with the result that charter rates have fallen.

An ultra large crude carrier accepted a rate of Wordscale 35 for a voyage between the Gulf and the US. A few oil cargoes appeared from the Middle East to the Red Sea and tankers have been traded in the middle-to-low Worldscale 40s. Galbraith's suggested at the weekend that rates might have "bottomed out for the time being."

Nevertheless, it was too early for tanker owners to be able to talk of a revival in charter rates.



T5100 - 80386/40 MB

● 80386 processor, 16 MHz ● Optional 80387 coprocessor ● 2–4 MB RAM (LIM/EMS) ● 40 MB hard disk ● 3.5" 720 KB/1.44 MB diskette drive ● High resolution plasma display, 640 x 400 dots, 4 gray scales ● Built-in graphics adapter EGA, CGA compatible ● Parallel, serial and RGB interfaces ● Interfaces for external keyboard, external diskette drive and expansion box ● Size 311 x 360 x 92 mm ● Weight 6.8 kg

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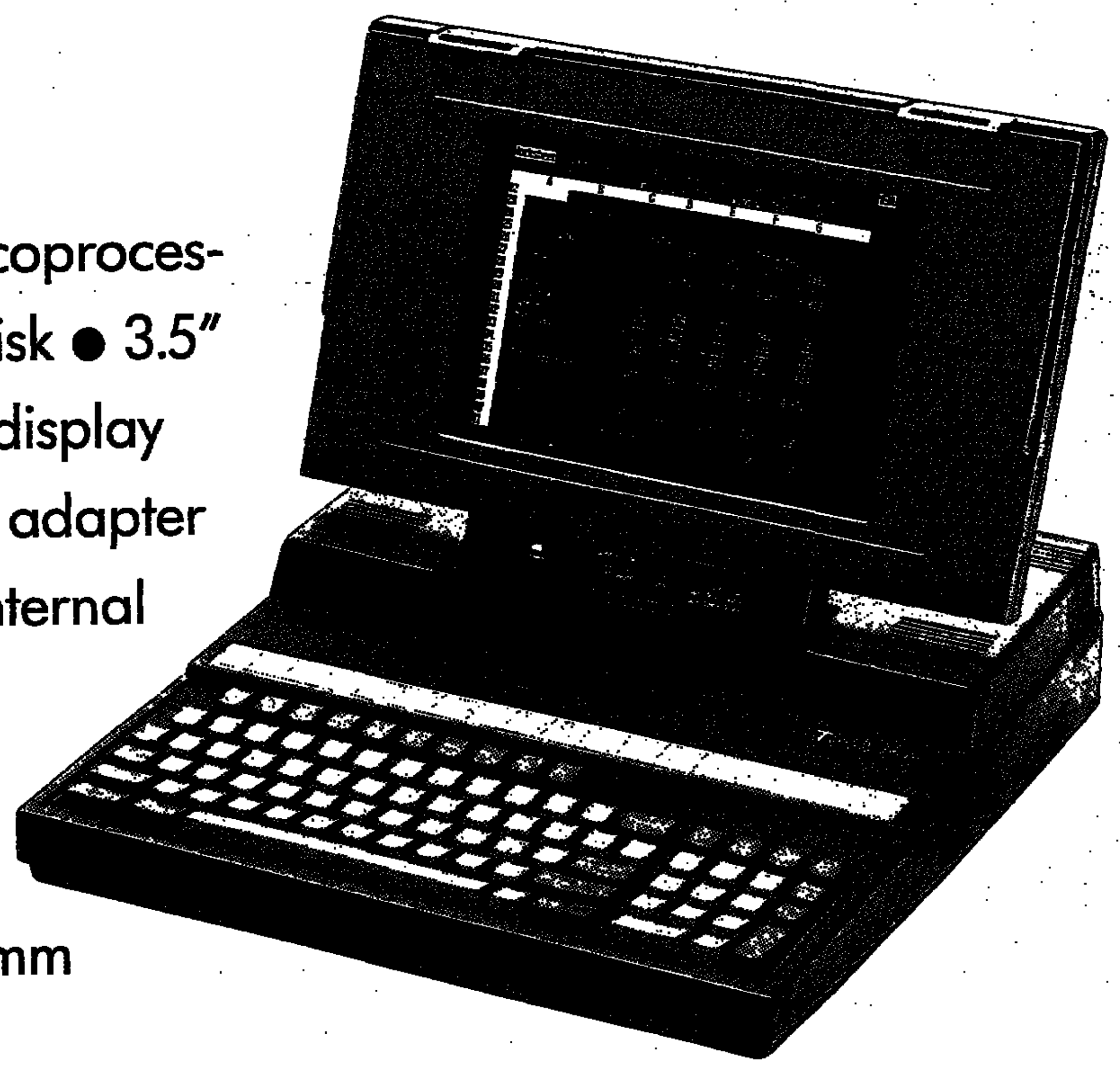
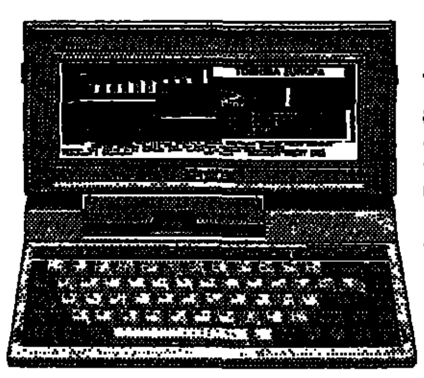
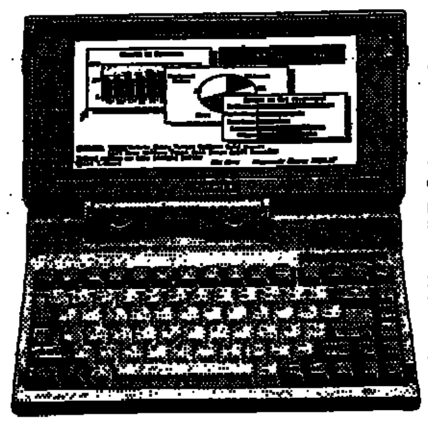


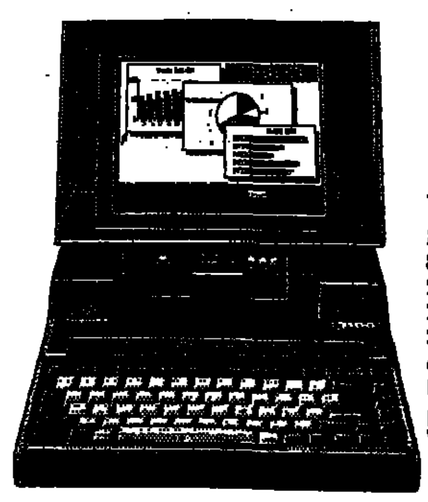


T1000
80C88 processor, 4.77 MHz. 512 KB – 1.280 MB RAM (LIM/EMS). 3.5" 720 KB diskette drive. Supertwist display. Weight 2.9 kg. Battery life up to 4 hours.

T1100 PLUS
80C86 processor, 7.16 MHz. 640 KB RAM. Two 3.5" 720 KB diskette drives. Supertwist display. Weight 4.5 kg. Battery life up to 8 hours.



T1200
80C86 processor, 9.54 MHz. Optional 80C87 coprocessor. 1 MB RAM (LIM/EMS). 20 MB hard disk. 3.5" 720 KB diskette drive. Supertwist display. Weight 5.5 kg. Battery life up to 6 hours.



T3100
80286 processor, 8 MHz. 640 KB – 2.6 MB RAM. 10 or 20 MB hard disk. 3.5" 720 KB diskette drive. High resolution plasma display. Weight 6.8 kg.

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UK NEWS

Energy Secretary set to discuss details of electricity privatisation

BY MAX WILKINSON, RESOURCES EDITOR

MR CECIL PARKINSON, the Energy Secretary, is ready to meet Cabinet colleagues later this month to discuss the general shape of his plans to privatise the electricity industry.

The main argument will centre on whether the Central Electricity Generating Board (CEGB) should be sold as it stands, or whether the national high voltage transmission grid should be prised away from it as a separate company.

The second important question is whether the 12 area distribution boards should be privatised separately or brought together in one national distribution company. A third option which ministers will discuss would be to consolidate the 12 area boards into four regional companies.

Ministers are likely to be in general agreement that the South of Scotland Electricity Board which generates, distributes and sells electricity should be privatised separately as a regulated monopoly.

Mr Parkinson has now all but abandoned the possibility of splitting up the CEGB into a number of competing generating companies. He can be expected to tell Cabinet colleagues that this would not be feasible if they want to keep to the present timetable of privatising the electricity industry this Parliament.

This is because several years would be needed to establish new management teams and to build up financial track records before demerged generating companies could be floated on the stock market.

Moreover, the Cabinet will be told that any radical break-up of the CEGB's generating operations would have to be achieved against strong opposition from trade unions and management.

The nuclear power stations, which account for about a fifth of Britain's generating capacity would further complicate any division of the CEGB's empire. This is partly because of sensitivity to the safety of nuclear reactors, and partly because nuclear reactors are much cheaper to run than conventional power plants, although they are more expensive to build.

Mr Parkinson has now received detailed submissions and contradictory advice from all the main sectors of the industry.

● The CEGB says it wants to remain intact as a single private sector company. It has said that any change from the present integrated management of the grid and power plant would result in higher costs or increased risks of black-outs.

● The Electricity Council, theoretically the industry's supreme body, says a single integrated distribution company should be set up. This would sell power to customers as the area boards do at present. In addition, it would be able to build power stations and would control the grid. The CEGB would then be relegated to a subordinate position of supplying power and would lose most of its strategic planning role.

● The Area Boards broadly want to stay in being, as regulated private companies, although some see advantages in an umbrella "holding company" analogous to the Electricity Council. Others prefer consolidation into four regional companies. They are generally agreed that the distribution companies should control the grid.

● The electricity unions are against privatisation in principle. In practice they would be more vigorously opposed to a break-up of the CEGB's generating operations than to a change of ownership of the grid.

They say they will not tolerate any attempt to circumvent present national agreements on manning and safety. The first meeting of senior members of the Cabinet is likely to discuss only the broad issues arising from these submissions.

Detailed decisions on the industry's future shape are likely to emerge from discussions in the early part of next month. If all goes well, Mr Parkinson expects to announce the agenda for revised legislation in December.

NUM sets British Coal overtime ultimatum

BY CHARLES LEADBEATER

THE NATIONAL Union of Mineworkers will start a national overtime ban from September 21, over British Coal's controversial disciplinary code, unless a negotiated settlement to the dispute can be reached within the next two weeks.

The NUM's national executive committee, meeting in Blackpool, on the eve the Trades Union Congress's annual meeting, called on British Coal to hold further talks with the union as soon as possible.

It is thought likely talks could be arranged for later this week. British Coal said it would continue with its open door policy towards negotiations with the union. But before talks could be arranged the NUM would have to outline in writing its detailed criticisms of amendments to the code the Corporation has proposed.

The code has become the focus of dispute between the Corporation and the union since it was introduced in March.

Several executive members said they were hopeful a settlement could be reached. Senior officials of Acas, the conciliation service, are in Blackpool, ready to facilitate the talks.

Under the government's trade union legislation, which gives unions 28 days to implement a ballot vote in favour of industrial action, September 21 is the last possible date on which the union could start action.

Miners voted voted by a 77.5 per cent majority to take action short of strike action, in a ballot held during July and August.

Mr Arthur Scargill the NUM's president, said there remained six main points on which the union wanted changes to the code. This is in spite of British Coal's proposals for changes, outlined in a letter to the union by Mr Kevin Hunt, the Corporation's director of industrial relations.

Mr Scargill said the proposals, which were drawn up after talks with Acas last week, did hardly anything to meet the union's objections.

Mr Hunt said British Coal was prepared to allow miners to be represented by a union official of their choice, but if the official had been dismissed the disciplinary interview would have to be held away from Corporation premises.

Mr Scargill said this was ludicrous and did nothing to clear up the position of NUM officials in Nottinghamshire and South Derbyshire, where the breakaway union of Democratic Mineworkers is in the majority.

British Coal has said it will stand by the adjudication of industrial tribunals in cases of unfair dismissal. But Mr Scargill insisted the NUM still wanted pit umpires, who could make binding recommendations on reinstatement, to be re-established as the final court of appeal in the industry.

The NUM wants all disciplinary procedures to be concluded within 14 days whereas British Coal has offered a 28 day timetable.

Rival unions in joint move on pensions

BY CHARLES LEADBEATER AND DAVID BRINDLE

LEADERS of the National Union of Mineworkers (NUM) yesterday took the first step towards officially recognising at national level the breakaway Union of Democratic Mineworkers.

The NUM's national executive, meeting in the coastal resort town of Blackpool, decided to take up its seats on the national committees which govern the mineworkers' pension scheme and the industry's social welfare organisation.

The two committees are jointly responsible for distributing tens of millions of pounds in benefits to miners, retired miners and the families of deceased miners.

The NUM's decision will mean that representatives of two unions will sit together for the first time since the formation of the UDM in the bitter aftermath of the year-long pit strike which ended in March 1985.

The constitutions of the committees were altered by the Coal Industry Act 1986 to allow seats for the UDM. Draft orders detailing allocation of seats were circulated earlier this summer by Mr Cecil Parkinson, the Energy Secretary.

The NUM's leaders yesterday accepted the allocation by membership: the union, which has about 100,000 members in the industry, will have a substantial majority over the 27,000-strong UDM.

The executive took the decision despite opposition by Mr Arthur Scargill, NUM president. He refused to be nominated for a seat on either of the committees.

However, Mr Peter Heathfield, NUM general secretary, and Mr Sammy Thompson, the union's vice president, will sit on the social welfare committee.

● Mr Ron Todd, general secretary of the TGUW transport union yesterday confirmed that his union had approached the NUM about a £1.6m loan the TGWU made to the miners' union during the 1984-85 dispute.

Mr Todd described as "scurrilous" reports suggesting that the Transport and General Workers Union was pressing the NUM for speedy repayment.

However, he said: "We are responsible to auditors. We have spoken to the union concerned in order to meet with our own financial requirements."

Mr Todd said the NUM could look to the TGWU for further financial support in the event of the miners running into more difficulties.

Health executive hit by cash limits

BY OUR LABOUR STAFF

CASH LIMITS have forced the Health and Safety Executive to slow down staff recruitment despite increased industrial accidents.

The Institution of Professional Civil Servants, the factory inspectors' union, says the move amounts to a freeze on recruitment for all posts except those in basic administrative grades where turnover is rapid.

The executive is shortly to advertise vacancies for factory inspectors but the union says the recruitment restrictions will mean that successful candidates will be unable to take up posts until the next financial year in April 1988.

Ms Liz Jenkins, the IPCS national officer representing HSE staff, said: "The executive are projecting an overspend of £1.5m on a budget of £96m, so they are doing this to try to stop themselves getting deeper into the mire."

The HSE would not comment on these figures, nor on suggestions that it has bid for an extra £9m of government funds in 1988-89.

However, it did say: "We have been faced with very substantial pay increases for some grades of professional staff this year, which means we are forced to slow down recruitment in order to try to keep within our budget provisions."

Disclosure of the HSE's financial squeeze follows publication of figures showing an increase of 31 per cent in major and fatal injuries in manufacturing industry between 1981 and 1985. The number of factory inspectors has fallen from 740 in 1979 to about 600.

New leader for Scottish teachers union

By Our Labour Staff

LEADERS of the main union for teachers in Scotland voted at the weekend to appoint a 33-year-old official as general secretary. Mr Jim Martin will become the youngest leader of a Trades Union Congress-affiliated union when he takes over the top job at the Educational Institute of Scotland (EIS) when Mr John Pollock retires next spring.

Mr Martin, a graduate of Heriot Watt University, Edinburgh, and a former economics teacher, joined the EIS staff in 1979 and has been an assistant secretary since 1984.

He is a member of the opposition Labour Party and is seen as a "soft" left-winger. The EIS plans to hold a ballot this autumn on setting up a political fund to provide financial backing to Labour – although not affiliating to the party.

The union, which has about 43,500 members, fought a highly effective pay campaign between 1984 and 1986 and Mr Pollock is widely respected in the Labour movement.

Mr Martin said yesterday: "I don't expect to inherit his reputation as the best teacher trade union general secretary in Europe – I'm going to have to earn it."

Apart from a continuing problem of under-funding of state schools, Mr Martin said, the EIS faced the fresh challenge of the government's education reforms in England and Wales being spread to Scotland.

Mr Martin's appointment was made by the EIS's 130-strong governing council. On a first ballot, he won a clear majority of votes over rival candidates Mr Fred Forrester, EIS organising secretary, and Mr Jack Dale, the union's secretary for further and higher education.

Mr Martin will formally become EIS general secretary designate on December 1 and will work in tandem with Mr Pollock from then until the end of April.

Alliance leaders set timetable for merger talks

BY JOHN HUNT

MR DAVID STEEL, the Liberal leader, and Mr Robert Maclennan, the new leader of the Social Democratic Party, hope to conclude negotiations on a merger between the two parties by the nd ofthe year as a rsultoftheirmeeting in Scotland ysterday.

It is anticipated that the proposals will then be submitted for ratficaton to representative conferences of the two parties in January.

Both said they were "raring to go." Mr Steel added: "I am quite certain we will have the show very firmly on the road by the new year."

The meeting, the first since Mr Maclennan became leader, lasted for an hour in Dumfriesshire, Scotland. In an amicable statement issued afterwards, they said the merger talks would be embarked on as soon as possible after the Liberal annual assembly in Harrogate next week.

They were determined that these talks would be "positive and creative" and would lead to the possibility of an "electable alterntive government" for the post-Thatcher period.

No decision came out of the meeting on whether the Liberals should hold a ballot on merger. The party assembly may debate the possibility o f a ballot but the feeling after the talks yesterday was that momentum for a merger was so great that such a vote would be redundant.

Detailed policy questions were not touched on yesterday. The difficult subject of a nuclear defence policy, where the parties have differed in the past, was not discussed.

Mr Maclennan reported to Mr Steel on the feeling that emerged from the SDP's annual conference. It was said from the SDP camp that "substantial progress" had been made, the two sides were going to get on with the job of merger negotiations and that areas of agreement would be reached at an early stage.

Mr Maclennan was encouraged by a statement at the weekend from the Liberal Parilamentary Association, a group of leading Liberals. It said that there was common ground among a "substantial group" in both parties on key policy areas that could prove stumbling blocks in the talks.

Fight likely over Labour policy revision

By John Hunt

A FIGHT over Labour policy revision, after the party's general-election defeat, was signalled yesterday on publication of the agenda for its annual conference in Brighton this month.

A National Union of Public Employees amendment provides a springboard for those such as Mr Bryan Gould, general election campaign co-ordinator, who want a shift to the middle ground. It says the party must "listen to the groups whose votes we need to win," a reference to attracting middle-class voters and to winning back members of the affluent working class.

It says Labour's programme must be "attractive, imaginative and responsive to the concerns of working people and relevant to the needs of Britain in the 1990s."

An amendment by Liverpool Walton party—the constituency of Mr Eric Heffer, a leading left-winger—warns against diluting Labour's commitment to Clause IV "as advocated by some party spokesmen in the aftermath of the election defeat."

The amendment says that, contrary to the view that socialis mis old fashioned and unpopular, it believes Labour will win a majority when it advocates policies like those successful in Liverpool at the general election.

It urges the leadeership to recognise that the only realistic response to what it calls an increasingly rabid right-wing Tory Party is to reassert the essential core of Labour policy and to avoid retreat from that.

It seems Mr Neil Kinnock, party leader, will face a struggle to get his one-member, one-vote proposals accepted. By that, candidates would be selected by all members of a constituency party. Amendments by such parties say that would be divisive and damage party prospects.

The national executive committee's annual report, published yesterday, shows that party membership dropped from 7.2m in 1979 to 6.1m last year.

David Lascelles reports on implications of the finding against Bankers Trust

Questions Libya ruling raises for US banks

THE JUDGMENT won by Libya in the English High Court last week entitling it to repayment of †292m (£178m) of deposits from Bankers Trust's London branch has been hailed as good news for UK banking. But, far from bringing an end to the problem, it creates fresh ones for US banks.

The trial also threw up disturbing evidence about the way US banks treat some of their customers which might well, ironically, provoke some sympathy for the Libyans.

The main point established was that the freeze imposed by President Reagan on Libyan assets held by US banks as part of his anti-terrorism campaign last year did not extend to London branches of US banks. Mr Justice Staughton said that since the UK had not imposed a similar freeze, Libya was entitled to withdraw any money it had placed with Bankers Trust in London.

He rejected Bankers Trust's argument that it would have to route any payouts from its London branch through the New York clearing house, where they would have fallen foul of the freeze. Libya, he said, could have demanded the money in cash in London and Bankers Trust would have had to pay.

"The judgement is a tremendous help," said Mr Jack Hutchings of Lovell, White & King, the solicitors acting for the Lbyan Arab Foreign Bank, which sued Bankers Trust. "It protects the principle that money deposited in London is payable in London."

That should strengthen the City's position in the international financial marketplace: not surprisingly, countries such as Switzerland watched the proceedings with great interest.

The judgment also blunts the force of an assets freeze as a weapon in international power play and makes it unlikely that the US Administration will again attempt such an action. Washington's previous freeze—on Iranian assets during the 1979 hostage crisis—never resulted in a court challenge, but is being resolved through an escrow account in the Netherlands.

Alfred Brittain, chairman of Bankers Trust.

Bankers Trust may yet appeal against the judgment. But the bank finds itself in an awkward position.

If it pays out the deposits in accordance with the judgment, it will still be in breach of US law because the freeze remains in force. "We find ourselves caught between a rock and a hard place," said Mr Graham Brister of Linklaters and Paines, who acted for Bankers Trust.

The US bank can apply to the US Treasury for a special exemption licence. Whether this is granted will be a political decision for Washington which would have to weigh the US's continuing hostility towards Libya against respect for a court decision by a close ally. The US Treasury said last week that it was monitoring the situation closely, but could not comment.

Bankers Trust is believed to have been the US bank with the largest Libyan deposits. But other banks also have smaller amounts of Libyan money and are likely to await the outcome of any appeal before deciding what to do.

Aside from the legal precedents established by the case—the first of its kind—the hearings shed light on certain US banking practices that are certain to arouse controversy.

Evidence produced in court, including internal memos from Bankers Trust, showed the bank was dissatisfied with the way the Libyans ran their account, so it altered the terms of it without telling them. The effect was to reduce the amount of interest the deposits earned. Since the Libyans did not notice that anything had happened, the change might have gone unrecorded but for investigations connected with the trial.

Bankers Trust memos show that this "modification" was done to boost the bank's income from the Libyan account, because the Libyans had refused to keep bigger balances. Bank executives were aware of the sensitivity of what they had done. "Are we getting too greedy? Will they notice the drop in interest earnings?" asks one memo.

Mr Peter Blenk, a Bankers Trust vice-president, told the court it was "market practice" for US banks to handle the accounts of developing countries, particularly in Africa, in such a way that they lost one day's interest on new deposits. He named Manufacturers Hanover and Irving Trust as others that did so.

Mr Justice Staughton said he agreed with an expert witness who described Bankers Trust's action as "a flagrant example of bad faith" and he ordered it to repay the lost interest to Libya, which is likely to amount to 2m. Bankers Trust's defence was that "Liya ought to have noticed" it was losing interest.

The trial also raised questions as to whether Bankers Trust was abiding by the spirit, if not the letter, of Federal Reserve Board regulations. US banks are supposed to place 12 per cent of their deposits on a non-interest-paying basis with the Fed as a reserve under Regulation D.

An exemption is granted for offshore accounts which are only payable outside the US. Bankers Trust was claiming this exemption for its Libyan account, even though it was payable through an account in New York. That saved Bankers Trust a lot of money.

Commenting on the evidence, Mr Justice Staughton said that either Regulation D did not mean what it appeared to say "or else Bankers Trust casually disregarded it," but said it was not for him to decide.

Bankers Trust also made life more difficult for itself at the time of the freeze by disobeying a standing instruction from the Libyans to transfer funds from their New York account to their London account. The instruction required the transfer to be made at 2 pm on January 8, 1986, only two hours before the freeze was announced, with immediate effect, at 4 pm.

Mr Fabien Arnell, the Bankers Trust officer who halted the transfer, told the court: "I cannot now recall the precise reason why I gave that instruction."

All that day, Mr Alfred Brittain, Bankers Trusts' chairman, was in contact with Mr Gerry Corrigan, the president of the New York Fed, who had told him to keep an eye on Libyan fund movements. When Mr Brittain said he wanted to make the transfer, Mr Corrigan told him: "You'd better call (Treasury Secretary James) Baker," which he did at about 4 pm, only to be told that the freeze was now in force.

Mr Brittain told the court this was the first he knew of a freeze. "That's how naive I was." The judge commented: "I am afraid I can but agree with Mr Brittain's description of himself."

The case highlights the complexities and embarrassments banks encounter through their international dealings, particularly when they involve controversial customers. The main consolation to emerge is that they are less likely in future to find themselves pitched by an assets freeze into the heart of an international dispute.

Consultant to rule on rival Hong Kong cable TV bids

BY RAYMOND SNODDY

A TEAM led by Mr Charles Jonscher, a British communications consultant, has been asked to adjudicate on rival Brtsh Telecom and Cable and Wireless plans to bring cable television to Hong Kong.

BT and Cable and Wireless are among the consortiums competing for the Hong Kong franchise in a project which could involve up to £1bn.

The consortiums include Hong Kong Telephone, a company controlled by Cable and Wireless, and BT, linked with Hutchison Cable Vision. The aim is to provide telecommunications services as well as cable television.

The Hong Kong project is an ironic reversal of roles for BT and Cable and Wireless, which owns Mercury Communications.

In Britain, Mercury and its parent company are trying to dent BT dominance in telecommunications. In Hong Kong, Cable and Wireless is the dominant telecommunications company and BT is trying to set up in competition.

The Hong Kong Government is expected to make its decision next year.

CBI concerned over water sell-off plans

BY RICHARD EVANS

THE Confederation of British Industry, widely regarded as an ally of Mr Nicholas Ridley, Environment Secretary, in his controversial plans to privatise the water industry, appears to be swining away from the Government's latest proposals.

Consultations with member organisations are continuing, and a final position will not be cofirmed until a council meeting on October 21, but outright opposition fro mthe CBI would be a significant blow for Mr Ridley who is already facing bitter oppocition from within the water industry.

Present indications are that CBI members are deeply concerned about two aspects of the Government's proposals, which were published — without consultations with the industry—in the Conservative Party election manfesto.

First, there is a fear that the plan to set up a National Rivers Authority to take over all regulatory and water management powers from the 10 water authorities in England and Wales could result in an expensive and ineffective quango with a staff of up to 7,000.

Second, there is concern at the loss of the concept of integrated river basin management, under which the authorities control all functions from the collection of rainwater to the disposal of treated sewage. The system has worked well since it was launched in the 1974 industry restructuring.

The Government's original plans, which proposed the flotation of the 10 authorities virtually as they stand, had to be withdrawn just over a year ago because of fierce opposition from farmers, landowners and sections of industry. They objected to the transfer of all-embracing regulatory powers from the public sector to privatised public limited companies.

Mr Ridley had assumed thta his new proposals, outlined in a green paper in July, had met the objections of the three major critics, the National Farmers' Union, the Country Landowners Association and the CBI.

This now appears to be in question and Mr Ridley, already under fire for his plan to substitute domestic rates with a community charge or poll tax, could find himself in more political difficulty.

A CBI director said: "We are still in the consultation phase, but it cannot be assumed that we will rubber stamp the Government's proposals. There is great concern about the NRA turning into a super-quango and about the loss of the present system of integrated river basin management."

hTe flotation of the 10 water authorities, which could fetch £5bn to £8bn, is not scheduled to start before the end of 1989. But the Government could face earlier problems with its bill, paving the way for privatisation, now before Parliament.

The bill provides for a series of compulsory water metering trials throughout the country and many peers and Conservative MPs object to this.

Gulf crisis boosts sales of naval equipment

BY DAVID BUCHAN, DEFENCE CORRESPONDENT

THE GULF crisis has boosted sales prospects for at least one part of the British defence industry, displaying its wares at the Royal Navy Equipment Exhibition beginning at Portsmouth today. It concerns companies making minesweepers, mine hunters, missile decoy ssytems and even mines.

Mr R. J. Osborn, sales director of Vosper Thornycroft, the shipbuilder, said yesterday: "The Gulf States are showing keen interest in mine countermeasures." He expects to see several senior naval officers and officials from Gulf states among the 78 national delegations due to visit the exhibition.

Vosper has built fo rthe Royal Navy the so-called Hunt class of minesweeper and hunter, four of which are bound for the Gulf. It is also building five single-role mine hunters (which detect but do not sweep mines). Vosper is trying to also interest Gulf states in those.

The difficulty for Vosper and the UK is that Britain has no spare ships for immediate sale, while the Dutch are reported to have two or three mothballed. The Dutch and Italian Governments have also apparently offered to sell some mine countermeasure ships out of their naval inventories.

Mr Colin Chandler, head of the UK Defence Export Services Organisation, yesterday said that although there was a "specific" Gulf-related interest in mine countermeasure and fast patrol boats "which industry and myself are trying to exploit," many Gulf states seemed to be waiting to see how they could best use existing equipment.

Mr Chandler said UK naval equipment sales were running at about 13-14 per cent of total defence sales, which last year amounted to a record of more than £5bn and accounted for an estimated 19 per cent of world sales.

Collaboration, Mr Chandler admitted, had the effect of preventing growth in UK jobs dependent on defence production expanding in line with the increased value of defence exports.

Mr Chandler said there were several big contracts for which UK companies were competing, including the conventionally powered Upholder and the nuclear-powered Trafalgar submarines which VSEL (Vickers Shipbuilding and Engineering Limited) hopes to sell respectively to Saudi Arabia and Canada.

Although the UK has sold few complete warships in recent years, two new designs for entire vessels were on offer.

VSEL announced its design for a new smaller conventionally powered submarine of around 1,400 to 1,800 tons, and CAP-Yard announced its plan for a frigate to be manned by only 50 men, or a third of the present manpower-efficient frigates.

BBC's choice attacked

BY RAYMOND SNODDY

THE LABOUR Party yesterday condemned the appointment of Mr Howell James, hitherto special adviser to Trade and Industry Secretary Lord Young, to the ne wpost of director of corporate affairs at the BBC.

Mr Robin Corbett, a Labour Party front bench spokesman on home affairs, yesterday described Mr James's appointment as extraordinary and said that by background he was one of Mrs Thatcher's poodles.

In hi snew job Mr James, 33, will be expected to be a link between the BBC and Parliament and industry and will be a member of the corporation's board of management.

Mr Corbett said yesterday that he had written to Mr Marmaduke Hussey, chairman of the BBC, asking him to review last week's appointment within six months, if not to cancel it. He said the BBC's relationship with Parliament and certainly the Labour Party would be harmed by such "an extremely insensitive appointment."

Hr James is not a member of a political party.

Industrial confidence up

BY OUR ECONOMICS CORRESPONDENT

FURTHER evidence of the high level of confidence in Britain's manufacturing industry is published today by the Association of British Chambers of Commerce.

The association's latest survey of the industrial outlook, covering the three months to June, shows manufacturing and service industries reporting a further overall improvement in domestic orders, in prospecas for employment and in capital investment.

A strengthening in the pound's value during the early months of the year, however, appears to have slowed the strong upturn in export orders

The association says the continued buoyancy of domestic sales is most marked in London and the south-east, in East Anglia and Greater Manchester.

The survey also shows a healthy trend in investment in plant and machinery, and reports from six of the regions covered suggest that the number of companies working at full capacity has fallen since the first three months of the year.

Coloroll to restructure carpets arm

By Alice Rawsthorn

COLOROLL, the fast growing home furnishings group, is to restructure Wallbridge Holdings, its recently acquired carpets business, by relaunching Wallbridge's products under the banner of Coloroll Carpets.

Earlier this year Coloroll diversified ito floor coverings by buying the privately owned manufacturer of tufted carpets for £8.5m. Coloroll will unveil its proposals for the creation of Coloroll Carpets in a presentation tomorrow at the Harrogate Carpet Fair.

Until now Wallbridge has manufacturer and distributed its carpets under a variety of brand names, including Longleat, West of England and Wallbridge. These ames are to be dropped.

The launch of Coloroll Carpets will be supported by marketing material for retailers and the overall Coloroll advertising campaign, which promotes all the group's products including wallcoverings, tableware and carpets. The group also intends to present a range of carpets co-ordinating with its other product ranges.

Computerisation

Since the acquisition of Wallbridge in March, Coloroll has invested about £1m in computerisation and new machinery. The capacity of the plant in the West Country has been increased by 25 per cent. It is considering whether to set up a distribution centre next year, at a cost of about £3m.

The group, which has previously concentrated on the domestic market for home furnishings, it looking at the possibility of augmenting its interests in the contract or commercial sphere. Coloroll carpets would form part of a coordinated range of products for the contract market.

Mr Philip Green, Coloroll's group managing director, said the group intended to increase Wallbridge's share of the £890m British carpet market—presently 2 per cent—over the next few years. But he stressed that Coloroll was unlikely to buy other carpet companies.

In the past year or so the British carpet industry has seen a flurry of acquisitions.

CEGB to press ahead with plan to automate grid

BY MAX WILKINSON, RESOURCES EDITOR

THE Central Electricity Generating Board has decided to go ahead with a plan to computerise the national distribution grid only a few days after the publication of a Monopolies and Mergers Commission report condemning its incompetent management of the project.

Specifications for the new system, now being evaluated by private sector suppliers, appear to be based on the assumption that the board will remain an integrated supplier of electricity and in control of the grid.

However, the system could probably be adapted to serve a privatised electricity industry with competing generating companes, should the Government decide to split up the board.

The new system, costing £95m, is likely to come into operation in the mid-1970s. It will replace the 1968 computer system used by the CEGB at its National Control Centre in Southwark, London. At present operators have to telephone regional control centres and power stations to ask them to switch power plants in or out of the ssytem as demand varies.

The new system would automate most of this task and switch individual power stations on or off as required. It will keep constant watch over the usage of the national supergrid high voltage transmission system and will make contingency plans in case parts of it become overloaded or break down. It will also store data to determine which power stations would have the cheapest running costs at any time.

The CEGB began the project 10 years ago but ran into trouble trying to develop computer programmes.

At the end of June the Monopolies Commission said the original estimate of the cost had been £10.5m. But the total cost including expenditure written off was now expected to be £95m.

It said the history of the project was a "catalogue of managerial and technical mistakes." It added: "The CEGB acknowledges that the control project remaines a high risk project. The estimated period to completion is as long now as it was when the project began in 1977. The software (programming) risks are still great."

In November last year the CEGB abandoned plans for a new automated system. However on July -, only a few days after the Monopolies report, it asked for tenders on a revised basis.

Bidders have been narowed down to Ferarnti, the Manchester-based computer company, and Control Data Corporation (CDC) of the US.

Privatisation of electricity 'will raise consumer costs'

BY OUR RESOURCES EDITOR

PRIVATISATION OF the electricity industry would raise the average cost of power because the private sector would require a higher rate of return than that being achieved, Mr John Lyons, general secretary of the Electrical Power Engineers Association, says in an article published today.

He says, in his association's magazine, that the present rate of return on capital required by the Government is 2.75 per cent in real terms. In the past financial year the industry had a real return of 3.1 per cent, equal to 9.6 per cent on historical-cost basis.

He says the signs are that private capital would not be interested in investing at the present rate of return, that privatisation increases the cost of electricity to the consumer, and that the Government would have to abandon its 1983 Energy Act.

The act said electricity boards did not have to pay for any privately-generated electricity if the result would be to raise the cost to the consumer.

Experts find names give clue to ages

By Feona McEwan

BRITISH marketing experts have discovered that a consumer's name can have serious commercial consequences.

Not content with identifying spenders by the sorts of homes they live in, their marital status, the money they earn or their purchasing habits, marketing experts now classify consumers by age. The clue lies in first names.

Ethels and Gilberts, Percys and Hildas, are likely to be more than 65 years old and retired while more contemporary favourites such as Karens and Traceys, Darrens and Kevins tend to fall into the pre-family category of 15 to 24 year olds.

Caci Market Analysis in London, developer of the system, believes that such information will help companies engaged in direct marketing to identify more accurately the consumers they are trying to reach.

Age is a useful discriminator in many markets, says Mr Clive Humby, Caci managing director. Sectors that are particularly age-sensitive include financial services, certain fast-moving packaged goods and durables.

Tumble driers, for instance, are bought primarily by consumers with young children and are aged between 25 to 44. Using the name classification system, known as Monica, marketing experts discover that that age group is identified by names such as Pamela, Brian, Keith and Heather, for instance.

Monica is aimed at satisfying what Caci calls "the current frustration within marketing that people cannot be targetted according to their age."

It was developed after a similar system was seen to work in France. Caci used the 43m names on the electoral register to identify 13,000 different first names, male and female. It built the database for the whole country by way of a mathematical model, taking into account regional favourites. There is, for instance, a preponderance of Duncans in Scotland.

The system is by no means foolproof, especially with names moving in fashion cycles, and indeed 15 per cent of names have been found to have no age bias.

Philip Stephens on whether sterling will link with European currencies

Final throw nears in EMS guessing game

THE GOVERNMENT'S post-election review of whether the time is ripe to take sterling into the EMS exchange rate mechanism has been deliberately low-key.

Officials grudgingly acknowledge existence of the review—it would be difficult not to, as Mr Nigel Lawson, the Chancellor, promised it during the June election campaign. But they are clearly anxious to keep it off the front pages.

However, whether the study is simply for form's sake, or whether it signals that the Government may be on the brink of taking the plunge, remains one of Whitehall's more tantalising guessing games.

There are clues in both directions and the outcome will turn not on sophisticated Treasury analyses, but on the Prime Minister's political instincts.

The economic arguments in favour of membership have been well-rehearsed. A formal link between sterling and the D-Mark, buttressed by the intervention mechanisms available in the EMS, would fill the void left in the Government's anti-inflation strategy by the collapse of monetary targetry.

Although the Treasury insists that its monetary strategy is as coherent as ever, the market's reaction to last month's rise in base rates was a clear indication of confusion. A decision to join would anchor, at least between currency realignments, Britain's counter-inflation policy to that of West Germany.

Exchange rate stability, as Mr Lawson said last week when he reaffirmed his commitment to keep the pound steady, is a key ingredient in industrial confidence. With manufacturing industry responding vigorously to the opportunities presented by last year's sterling devaluation, preserving that confidence is top of the Government's priorities.

Further, it might hope that, initially at least, a decision to join would pave the way for a steep reduction in interest rates by removing some of the currency "risk premium" which investors now demand on sterling investments.

The Chancellor's conversion to the virtues of actively managed rather than free-floating exchange rates was again underlined last week with the publication of August's official reserve figures. They showed substantial Bank of England intervention to cap a rise in the dollar's value and to keep the pound within a narrow band against the D-Mark.

The Treasury does appear to have shifted upwards its informal target range for sterling since the beginning of the year. Assuming, however, a central rate of DM 2.95, the fluctuations against the D-Mark since the June election have been kept well within the 2.25 per cent margin allowed by the EMS.

Nigel Lawson: in favour of currency stability

Mr Lawson, who only two years ago was highly sceptical about the ability of governments to call the shots in foreign exchange markets, has emerged as one of the strongest supporters of the international agreement to stabilise the dollar.

That is partly opportunism. February's Louvre accord between the Group of Seven industrial nations provided a convenient framework into which could be slotted the new policy of stabilising the pound.

But the value of preserving the accord, which the Chancellor will re-emphasise at this month's meeting of the International Monetary Fund in Washington, can also be seen in a broader context.

As Mr Anthony Loehnis, an executive director of the Bank of England, commented in a little-reported but detailed speech on EMS membership two years ago, a key inhibition to British membership has been "the fear of being caught in the crossfire between a rapidly-strengthening D-Mark and a sliding dollar."

The new arrangements to strengthen the operation of the EMS, which central banks seem set to agree by tomorrow, should also be attractive to Britain. They focus on increased use of so-called "intra-marginal intervention"—essentially more vigorous action by central banks to counter speculative attacks on currencies before they reach their prescribed floors within the system.

The measures are hardly revolutionary, but they do imply a tilt in the balance of responsibility from weak currency countries towards West Germany. That in turn could diminish the anti-inflation bias of the system, but then Britain can hardly aspire to West German inflation levels when average earnings are rising by nearly 8 per cent a year.

None of this is to suggest that all the economic arguments against membership have disappeared.

The Treasury still believes that greater exchange rate stability might be at the expense of increased interest rate volatility.

Sterling's role as a petro-currency has diminished, but fluctuations in the oil price still pull sterling in one direction and EMS currencies in the

The pound's status as a reserve currency could introduce a new "bi-polarity" into the exchange rate mechanism. That in turn could boost speculative flows at a time when they already look set to increase in response to the gradual dismantling of capital controls by Britain's partners.

Given the cost inflation differential between Britain and West Germany, the Government would be paying for increased stability between inevitable realignments with bouts of extreme pressure in the immediate run-up to such adjustments. Whether industry would be able to recoup fully any competitive losses at such realignments must also be open to question.

The Treasury and Foreign Office view has been that on balance the pros outweigh the cons. Mrs Thatcher, however, will want to add politics to the equation — exchanging control over the value of the pound for the fairly nebulous political advantage of appearing mone community-minded.

That makes the outcome of the present review impossible to predict with any certainty but if Mr Lawson cannot persuade the Prime Minister within the next few months that the time is ripe, it is difficult to see him ever doing so.

Study forecasts long-run growth of 2.5% a year

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE GOVERNMENT has the opportunity to ensure that Britain's economy moves into an essential, third phase of recovery from the deep recession of the early 1980s, says an academic study published today.

The study, from Warwick University's Institute for Employment Research, gives a relatively upbeat assessment of economic prospects into the early 1990s. It suggests that in the years to 1995 the economy's overall performance will be similar to the long-run trend over the two decades before the first oil shock in 1974.

The institute's forecasters predict that economic growth will average 2.5 per cent in the next few years before slowing slightly in the first half of the 1990s. Employment is projected to grow by 1.4m between 1986 and 1995, although the official jobless total is likely to remain at about 2.5m.

Several policy initiatives were needed, however, to maintain the recovery's momentum. The institute says that until now the upturn has been divided into two distinct phases—first a natural rebound in investment and stocking from the low levels seen at the depth of the recession and subsequently a broader revival spurred by buoyant incomes and a falling pound.

More dynamic productivity growth and investment were needed now as the second phase came to an end. Although there had been a significant underlying improvement in Britain's productivity performance, much greater investment was needed to sustain it.

Warwick advocates three policy changes. It says Britain should take up full membership of the European Monetary System to limit the damaging impact of exchange rate fluctuations on importers. Second, the Government should delay additional cuts in income tax in favour of a gradual reduction in the National Insurance contributions paid by employers. Third, more resources should be made available for the country's most depressed regions, particularly for education and training.

In its detailed review of the employment outlook, the institute says that manufacturing jobs are likely to continue to shrink by about 1 per cent a year, adding up to the loss of another 500,000 jobs by 1995.

This would be more than offset, however, by gains in other sectors of the economy. Small increases in employment could be expected in the public sector, in transport and distribution and in construction. But the main growth would take place in business and personal services.

The continuing shift in employment towards the service sector would be accompanied by a further move within that sector towards self-employment and part-time jobs. The new jobs were also likely to be concentrated in managerial, professional and related occupations. Unskilled jobs were likely to decrease.

Review of the Economy and Employment; Institute for Employment Research, University of Warwick, Coventry CV4 7AL; £20.

UK NEWS

Richard Waters on the proposal to allow minority stakes in firms

Accountants balance cost of change

THE opening shots were fired last week in a debate that could lead to financial and other institutions owning minority stakes in accountancy firms.

Such a change is still a long way off. Accountants will not be allowed to switch themselves from partnerships into companies until 1990 at the earliest. Even then, there are likely to be good reasons for them not to offer equity to outsiders.

This autumn, however, ministers will need to decide whether the idea is right in principle. Prompting them is the need to implement the European Community's eighth company law directive, due to form the basis of a 1989 Companies Act.

The EC requires only 51 per cent of the shares in accounting firms to remain in the hands of auditors. The UK cannot go further than this—but it can, if it thinks fit, place tighter limitations on ownership.

The largest accountancy firms those which have moved farthest from their roots in auditing and those which are the most eager to see incorporation allowed—last week demonstrate little agreement on the issue.

They agree that incorporation should be an option for firms. But they do not agree on who should own the equity of accountancy companies.

On one side are firms which claim that the only way to keep auditing independent is to restrict ownership to people working in the business. The argument runs that, since non-accountants make up a growing proportion of a firm's staff, they

Jim Butler: weighing up the benefits

should be allowed to own shares as well as their accountant colleagues.

Mr Jim Butler, senior partner of Peat Marwick McLintock, the UK's largest firm of accountants, last week allied himself firmly with this school of thought. However, in common with other senior partners, Mr Butler has yet to discover what his partnership as a whole wants. With 400 partners, reaching agreement will not be easy.

On the other side are firms which want the ownership rules to be drawn as broadly as possible, short of actually allowing outsiders to take control. This could eventually lead to firms selling shares to institutions or other financial services groups.

Designing a system which allows outside ownership while protecting the independence of auditors is not the least of the problems presented by this option, says Mr Butler. Mr Brandon Gough, senior partner at Coopers Lybrand, disagrees: concerns about independence can be dealt with through a tough rule book, he says.

All the other large firms find themselves in the same camp as Mr Gough, though with different degrees of enthusiasm. At one extreme is Touche Ross, where Mr Mike Blackburn, senior partner, led the lobby for limited liability status when it first emerged two years ago. At the other are firms such as Price Waterhouse, which is only now coming round to the idea.

Mr Elwyn Eilledge, senior partner of Ernst & Whinney, says: "I think most firms, and certainly the major firms, believe that in theory we should allow some outside interests."

The Government has shown itself so far to be keen to legislate as liberally as possible. "Generally we believe that regulation of corporate auditors should be left to the profession," it said in a recent consultative paper.

Accountancy firms would like to turn themselves into companies for a number of reasons. For a start, it would give partners' personal assets a degree of protection against negligence claims. Also, it would reflect the reality that most firms already operate under quasi-corporate management structures.

A third and, in the long run, more persuasive reason is that it would give firms access to outside equity capital. Investment in technology and buying other businesses is likely to subject firms to greater financial pressure than they can bear as partnerships.

However, the large firms are not rushing towards incorporation—or at least claim not to be.

The senior members of partnerships that number in the hundreds must tread carefully, or risk alienating their junior colleagues. Being a partner, with a share in the profits and a vote on important issues, is one thing: being a middle manager in an accountancy company quite another.

The tax implications of becoming a company director will also make accountants think twice. Partners do not pay national insurance contributions on profits and are not within the PAYE system. Such benefits will not be given up lightly.

Also, some of the problems of accountancy partnerships can be dealt with in other ways. Allowing firms to act as true multi-disciplinary partnerships, rather than the complex web of interlinking audit and consultancy partnerships they are at present, would solve some of the management headaches.

The consequences of changes in the rules on ownership of accountancy firms may not be felt for some time. However, few doubt that accountants are set for the most important step in their development since auditing became a legal duty 40 years ago.

Commercial vehicles hit record

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

NOT ONLY car sales but also commercial vehicle sales benefited from the introduction of the "E" number-plate prefix last month. Commercial vehicle registrations reached the highest level ever recorded in one month, according to the Society of Motor Manufacturers and Traders.

Commercial vehicle registrations were 15.47 per cent ahead of August 1986 at 40,524. Sales in the first eight months of the year, at 212,589, were also well up, with a 6.92 per cent increase on the same period of last year.

August also brought a new twist in the struggle between newly merged organisations. Iveco Ford and Leyland Daf for top place in the heavy truck (over 3.5 tonnes gross weight) sector.

In the buoyant market conditions, a strong performance in August put Iveco Ford, jointly owned by Iveco, the Fiat-controlled group, and Ford of Britain, back in front of its principal rival, Leyland Daf, the Anglo-Dutch company in which the UK's state-owned Rover concern has a 40 per cent shareholding.

However, there were allegations that Iveco Ford dealers were offering exceptional discounts to win sales for the UK-built cargo trucks during a month when the company improved sales from 890 in August 1986 to 1,687.

The discount offer took Iveco Ford's registrations for the year so far to 9,000, up from 6,607. Its heavy truck sector share of the market went up from 18.2 per cent to just over 23 per cent.

Leyland Daf's eight-month sales this year were 8,908, up from 8,421, but its share slipped from 23.2 per cent to 22.8 per cent.

By the end of August, heavy truck sales were 7.4 per cent ahead of the same period last year at 39,002. Registrations of car-derived vans were up by 4.4 per cent to 70,779, while van sales jumped by 9.4 per cent to 91,319.

Light four-wheel-drive vehicle sales increased by 5.1 per cent to 9,970, but bus and coach registrations fell by 12.8 per cent to 1,519.

Imports took 44.62 per cent of the total commercial vehicle market in August (up from the 43.12 per cent level last year) and for the eight months their share was 38.08 per cent (39.99 per cent).

● Land Rover yesterday announced record UK monthly sales figures. Registrations of Range Rovers in August were 1,071—34 per cent above the previous record in August last year.

Land Rover August registrations were the second highest monthly total for more than 12 years at 818.

Combined sales of 1,889 were the best since the company was formed in 1948.

Mr Tony Gilroy, managing director, said: "The news comes against an encouraging background on the exports side.

Companies hit by slow-paying debtors

SLOW PAYERS are forcing many UK companies to delay settling their own debts and many of these businesses are being forced to hold back on expansion plans.

In a survey of company-to-company debt in today's issue of Chief Executive magazine, companies reveal they have lost orders because rivals offered more generous credit terms.

The magazine says "Most companies are in favour of a change in the law which would automatically add interest to overdue accounts."

It says that government attempts to tackle the problem—a code of practice called Payment on Time—has not even been read by most leading managers. Only a few believe it was of any help.

Just over half the surveyed companies admitted to sometimes not paying their accounts as a matter of policy until after the due date. The survey said, "Another 17 per cent say that they are bad payers frequently and 7 per cent that they always paid late."

Garages losing servicing work, survey shows

MANY OF Britain's motorists are doing their own servicing, or getting a friend to do it, rather than going to garages which they see as overcharging or offering poor value for money, according to a survey published today.

More than 60 per cent of motorists have their car serviced regularly, and almost 40 per cent of these, predominantly male, do not have the work done professionally.

The survey, commissioned by SMC, a chain of fast fit motor centres, found that more than 50 per cent of motorists thought garages overcharge for servicing or offer poor value for money while more than 40 per cent also thought that garages did not carry out all the work they claimed to have done.

The vast majority of motorists who had their cars serviced professionally were loyal to one particular outlet and most said they sought out AA approved garages or motorist centres.

More than two-thirds of all motorists knew what their tyre pressure should be, but only 46 per cent of women, and most checked their tyres and treads every two to four weeks, northerners most frequently.

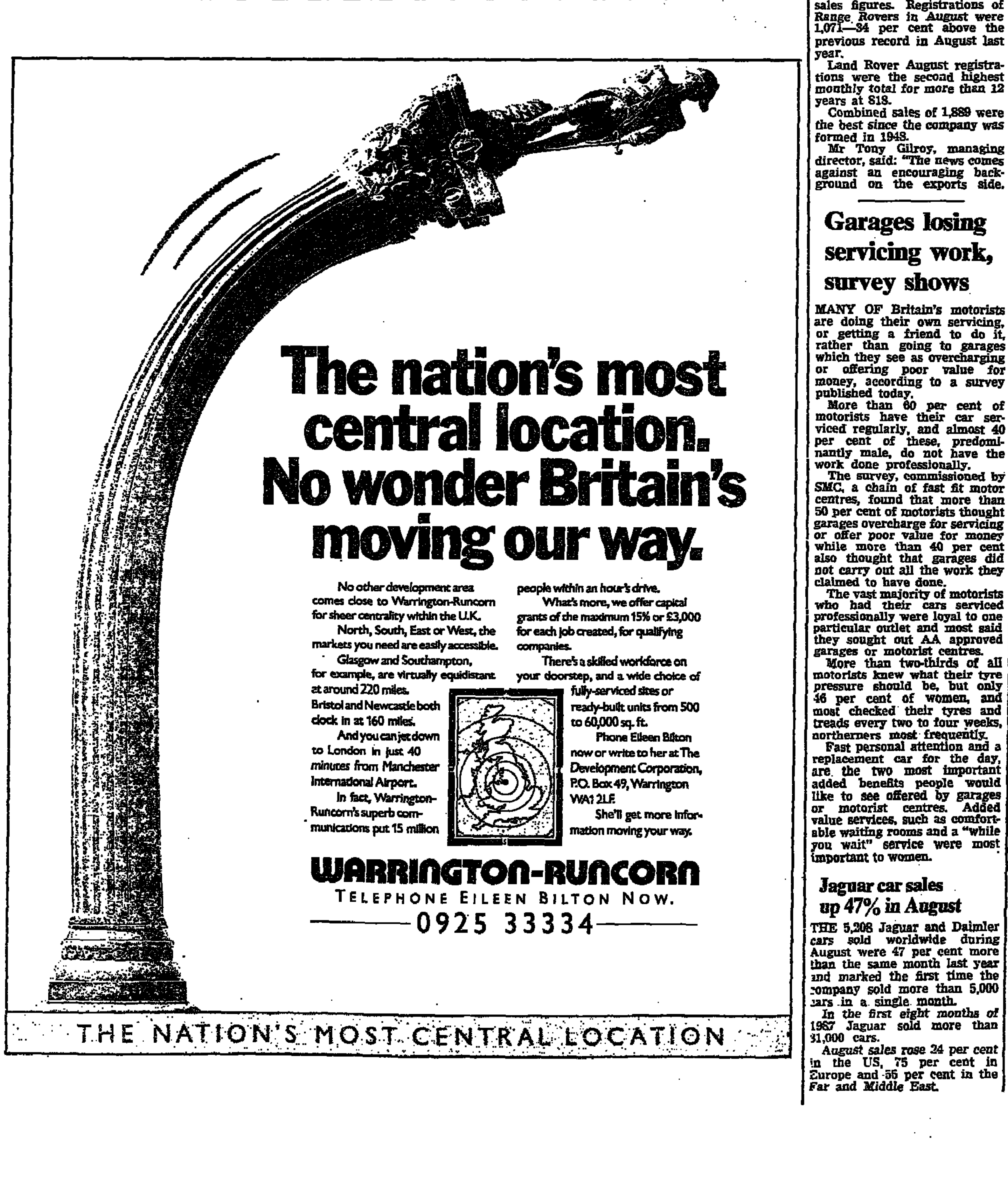
Fast personal attention and a replacement car for the day, are the two most important added benefits people would like to see offered by garages or motorist centres. Added value services, such as comfortable waiting rooms and a "while you wait" service were most important to women.

Jaguar car sales up 47% in August

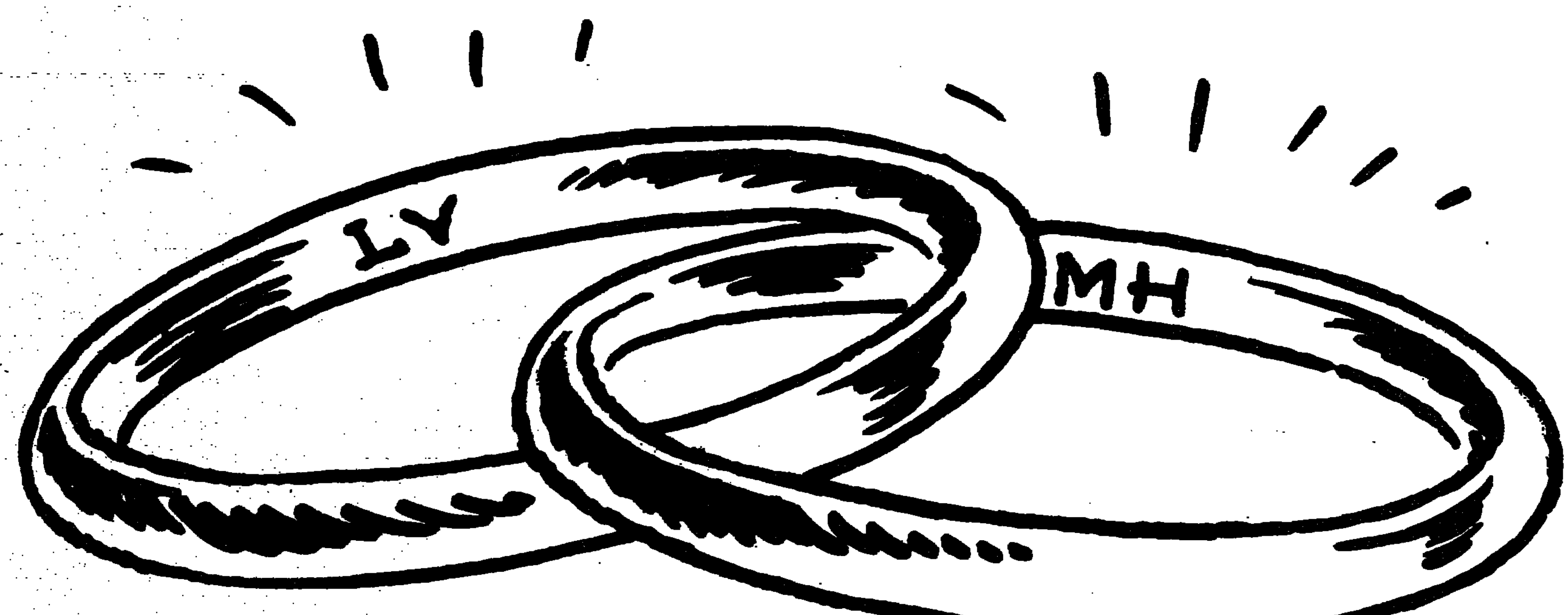
THE 5,208 Jaguar and Daimler cars sold worldwide during August were 47 per cent more than the same month last year and marked the first time the company sold more than 5,000 cars in a single month.

In the first eight months of 1987 Jaguar sold more than 31,000 cars.

August sales rose 24 per cent in the US, 75 per cent in Europe and 55 per cent in the Far and Middle East.



We are proud to announce the merger of Moët Hennessy and Louis Vuitton



On September 2, 1987, the shareholders of Moët Hennessy and Louis Vuitton approved the merger of the two companies, creating LVMH Moët Hennessy Louis Vuitton.

The new company will be preeminent among world suppliers of highest quality luxury products, with estimated 1987 sales (78% outside France) of 13 billion French francs and net income of 1.3 billion French francs. With a market capitalization of more than 26 billion French francs, LVMH ranks fourth on the Paris Stock Exchange.

LVMH brings together the following major brands, listed in the order they were created, beginning in 1729:

Ruinart, Moët & Chandon, Dom Pérignon, Veuve Clicquot, Henriot, Mercier, Canard-Duchêne (champagnes), and Domaine Chandon in California.

Hennessy (cognac).

Louis Vuitton (luggage and leather goods).

Roc, Parfums Christian Dior and Parfums Givenchy (perfumes and cosmetics).

Its resources strengthened by the merger, LVMH Moët Hennessy Louis Vuitton will seek out new opportunities in fields compatible with its historic traditions of luxury and highest quality.

LVMH

MOËT HENNESSY • LOUIS VUITTON

Creative Business.

Temporary addresses: c/o MOET HENNESSY: 30 Avenue Hoche 75008 Paris • c/o LOUIS VUITTON: 30 Rue la Boétie 75008 Paris.

UK NEWS – THE TUC AT BLACKPOOL

TUC likely to support review of unions' role

BY PHILIP BASSETT, LABOUR EDITOR

THE Trades Union Congress is expected today to vote to establish a searching, year-long review of trade union organisation, role and structure in a co-ordinated attempt to halt the *decline of union influence*, membership and density in the UK.

The vote for the review, which is likely to be overwhelming, will mark the start of an effort *by the unions to use this week's* conference in Blackpool to improve unions' standing with members and especially with non-union employees, who now form a clear majority of the workforce.

However, while the move for a review will be carried, it was clear in Blackpool last night that there will be vocal opposition to it, partly because of:

● Unease about the procedural *method chosen by the* TUC general council — allowing no votes on individual union resolutions on future *union organisation* but only a single vote on the TUC's statement establishing the review;

● An issue to be covered by the review—the strike-free, sngle-union deals being reached by some unions.

The chosen procedure is unlikely to prevent sharp differences between unions being made clear at the congress rostrum, though they will not be crystallised into formal, binding votes. The main areas of difficulty for the TUC are likely to be:

● **Miners.** Apart from yesterday's decision by the National Union of Mineworkers' executive setting a two-week deadline for the start of industrial ac*tion over British Coal's discip*linary code, the NUM delegation decided to object formally this morning about the TUC's chosen procedure on union organisation, though the scale of votes for the review was indicated when even the left-led NUM made clear it would vote for the TUC's statement.

● *Strike-free deals.* Divisions over the deals and the right to strike continued yesterday. Mr Arthur Scargill, NUM president, warned on BBC television's This Week, Next Week programme that congress unity would break apart in "one hell of a bust-up," with EETPU, the electricians' union, "coming to line" or the TUC itself having to take disciplinary action.

However, on the same programme Mr Bill Jordan, president of the AEU, the engineerin gunion, said Mr Scargill was *crazy. He made* clear the TUC would not support militant action. He said the union champions of confrontation had had their day. "They have lost — and we have lost members *as a result*" of such strike action.

The CPSA, a civil servants' union, is also determined to attack the deals, though the TUC will not allow the union to withdraw from an already-agreed composite motion to enable it to force the issue to a vote.

● **Wapping.** Print union leaders will tomorrow bring to the congress floor new charges against EETPU for its continu*ing activities within* News International's Wapping plant, east London.

The conference faces difficulties on such issues as nuclear power and share-ownership.

In spite of this, the TUC is still confident and optimistic as its congress opens. Mr Norman Willis, TUC general *secreary, formally launched its* main theme at a pre-congress press conference.

He said: "The theme of this year's Congress is Building for the Future. This is more than *a slogan: I believe it accurately* reflects the mood of the trade union movement today."

Conciliatory move by EETPU over Wapping

By Our Labour Staff

THE EETPU electricians' union yesterday attempted to defuse renewed controversy on the eve of Congress over its role in organising members at News International's newspaper plant, in Wapping, East London.

The union's executive set up an internal investigation after being accused of breaking a TUC directive by continuing to organise on behalf of printers *at the plant, where four* national newspaper titles are produced.

The move was prompted by a letter from Mr Norman Willis, the TUC General Secretary, *asking if it was true that the* union had prepared a wage claim on behalf of members at Wapping, drawn up a draft recognition agreement and carried out a survey of staff *opinion.*

The report will be investigated by a three-man committee of EETPU executive councillors headed by Mr Paul Gallagher, its president, and will report *its findings to both the executive* and Mr Willis.

Mr John Grant, the union's head of communications, said yesterday that it wanted to establish exactly what the *accusations were and how much* truth there was in them before giving Mr Willis a full response.

EETPU hopes to avoid more controversy over Wapping this week, although the print unions *Sogat 82 and the National* Graphical Association will tomorrow try to force the TUC general council to take further disciplinary action against it.

During the debate on the general council's annual report, the two unions will attempt to persuade Congress to refer back the section on the Wapping dispute,

The accusation that EETPU has broken a February 1986 TUC directive not to continue any non-contractual agreement with News International came from Mr Steve Seaman, a former chairman of the staff salaried council at the plant.

Mr Seaman was reported in The Guardian as having said that Mr Tom Rice, an EETPU national office, had maintained contact with News International management since the TUC directive

NUR resists rail rivals

LEADERS OF the National Union of Railwaymen are asking the EETPU electricians' *union to abandon attempts to* organise employees of London's Docklands Light Railway, who last week voted in favour of trade union representation but by a margin the company judged insufficient to grant union recognition.

Mr Jimmy Knapp, NUR general secretary, has written to Mr Eric Hammond, EETPU general secretary, asking for a meeting on the issue at this week's TUC Congress.

As the TUC gathers **Philip Bassett** analyses the dilemmas facing the labour movement

We're not all right, Jack, and we know it

AS DELEGATES gathered in Blackpool on the eve of today's opening of the TUC Congress, BBC television timed to perfection a screening of I'm All Right Jack, the classic 1959 film satire of British trade unionism. Today's expected approval by the Congress of the *formation of a special review* body on union organisation will mark an attempt by the unions to move away from the traditional self-interested sectionalism summed up by the film's title.

The review will do much to deflect potentially embarrassing splits between the unions. But will it be more than just a classic TUC fudge to get *through the Congress week in* as good order as possible? What will the review do? Will it provide the answers the unions need? Will it stop the rot in union power, influence and membership?

Once the Blackpool Congress is over this week, the unions will start moving quickly to find out. Next month's TUC "inner cabinet," the finance and general purposes committee, will draw up a co-ordinated programme of work for the TUC's standing committees and the new special review body itself.

Membership of the review body *will be the first hurdle.* Membership of the TUC's still-running review body on the nuclear power industry was virtually self-defining, consisting of those unions with an *interest in the industry.*

Membership of this one, addressing issues affecting all unions, will be harder to determine, but it is likely to consist of 20 union leaders, including all the large unions, balancing left- and right-wingers, and trying to draw in the best quality people available where possible.

The special review will mesh in with other related moves. Since February, the TUC has been looking closely at its own finances and spending, and after Congress Mr Norman Willis, TUC general secretary, is to meet the chairman of all the TUC's committees to establish what they should be doing — with perhaps as few as one or two priorities for work as absolute objectives.

The TUC has travelled this path before. Labour's shattering 1983 general election defeat was succeeded by the so-called "new realism" which took shape in an exercise called TUC Strategy, a hard look at union purpose in the 1980s. TUC Strategy, though, was largely outpaced by events. On the one hand, it could not keep up with the model of union militancy put forward by Mr Arthur Scargill and the NUM in the 1984-85 miners' strike, and on the other, it was outpaced by the *realism in practice of Mr Eric* Hammond and the EETPU electricians.

The Government's union ban at the GCHQ communications centre at Cheltenham and the *series of internal TUC diffi*culties, such as unions applying for Government ballot money meant that the TUC could not devote the necessary time to it. It had in any case deterior*ated into a series of questions* for unions, rather than answers.

For the unions, the new review will have to be much better. However bad things looked for them in 1983, they look worse now. The TUC is at least aware of this. "We now more clearly recognise the problems that face us," said Mr Willis yesterday. "And recognition of a problem is the most important step towards solving it."

Crucially the TUC recognises that no matter how *successful the review body is,* and no matter what kind of proposals it brings forward, it *is only dealing with a part of* the problem. Whatever unions decide or do, they cannot have much influence on "employer push"—employers taking the initiative, wanting change, pro*posing fresh agreements and* forms of industrial relations practice.

TUC CONGRESS'87 BLACKPOOL

Mr Willis thinks that if the unions can work together to offer employers fewer opportunities to divide and rule, then they can influence employer push. It's significant that the new review body will be examining *management* as well as union strategy.

Its first job, in fact, will be to tackle head-on what is for the unions the most acute aspect of employer push—single union, strike-free deals. Though tiny in number, involving very few companies and even fewer unions, they have become enormously influential and are *what wil l be most immmedi*ately controversial in the Congress debate today.

Mr Willis and his deputy, Mr John Monks, know that they have to resolve the problem of *these agreements, and the differences in union philosophy* reactions to them illustrate, if there is to be any prospect of the review body going on to tackle the much wider and *deeper problems facing the* union movement which lie behind them—in particular, the gathering resurgence of non-unionism.

Mr Willis' intention is to produce within six months a progress report on the review body's work which will provide a solution to the r...... of these agreements, though he accepts that in the interim period there are likely to be more examples of them, more deals signed, which may not be helpful to the review body's task.

How unions behave while the review body is at work will be vital. There was no support in the TUC General Council for the call by the TGWU transport *union for a formal moratorium* on such deals while the review was taking place, and the informal understanding to proceed carefully when offered such agreements by employers has already been put under strain within hours by the EETPU agreeing yet another strike-free deal in South Wales.

Mr Ron Todd, general secretary of the TGWU transport union, who will today move the union's motion against strike-free deals, said yesterday after the union's TUC delegation *meeting that* Mr Willis would offer "clear consultation and advice and guidance" to unions *while the review was under* way, though after its meeting the EETPU said that while it would *inform* the TUC of any deals, and listen to Mr Willis' advice on them carefully—but *would not be bound by it.*

Even so, the explicit agreement by unions to keep the TUC informed of such deals will help ease the tension: it will, to some *extent*, keep the EETPU in check, and it will stem other unions' hypocrisies of attacking such agreements in public, while signing them—or deals ver ylike them—in private.

But the real problem goes deeper still. If such agreements go on being signed, as the EETPU already is, then *whatever may come out of the* TUC may not really affect union practice

Mr Willis is adamant that the review must be practical: "It is not just a question of sitting down at Congress *House* if things are not changing outside," he says. "If the existence of the review body does not have an influence on what people are saying and asking *and doing then it is not a* solution."

For the unions, it must be a solution. Given the decline in union power, I'm All Right Jack is a long way from how *unions are now—but it* may well be howtheyare seen survive, let alone thrive, in the complex, fragmented labour market of the late 1980s and *1990s,* trade unions must find a *new role to halt their decline* n membershp and iñ the propor*tion of the workforce they* represent.

Today's review may be their best—maybe even their last—*chance to do it.*

Looking for the image of humane unionism

BY JOHN GAPPER

A SMALL symbol of the changes which the Trades Union Congress is trying to make in the face it presents to the world will be handed out to each delegate in Blackpool today.

A glossy Congress Guide—filled with advertisements from companies interested in attracting their attention—will help them find their way around the intricacies of the agenda and the Winter Gardens seating arrangements.

The guide also explains another innovation at the Winter Gardens conference centre—an exhibition of 52 stands set up by companies and societies ranging from the British - Soviet Friendship Society to British Nuclear Fuels.

Mr Norman Willis, TUC general secretary, said yesterday that the guide and exhibition were part of the TUC's attempt to "look outwards rather than downwards" and recruit new members by offering a wider range of services and a fresh image.

An another part of that effort, delegates will be shown a film today on the theme of the Congress slogan, Building for the Future, which Mr Willis described as "compelling, refreshing and comparable to the ways we receive other messages in this world."

A flick through the guide's advertisements indicates those who see a business potential in the union style of the future — public relations and communications advisers are strongly represented and even one parliamentary lobbying company has taken space.

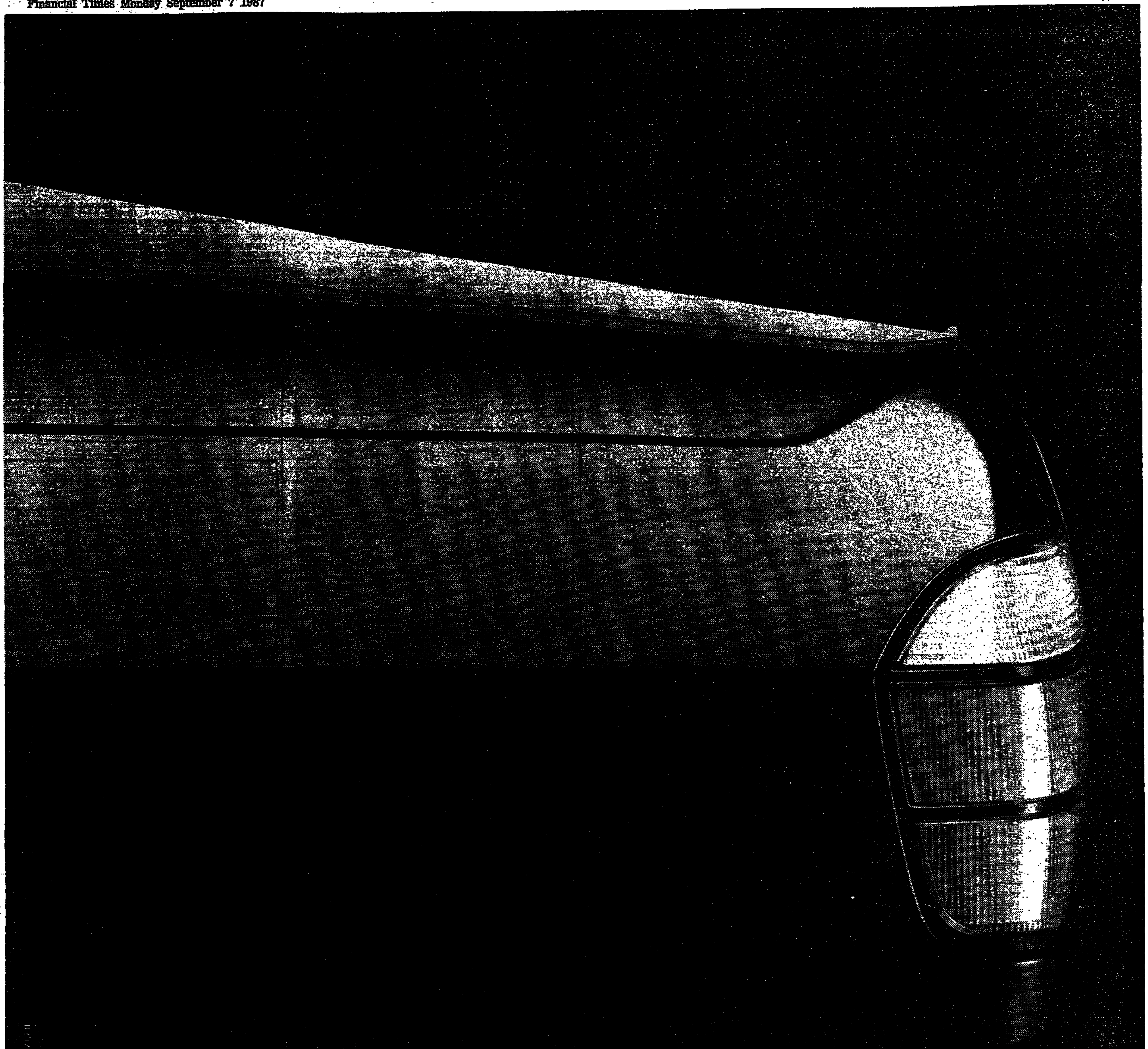
One advertisement, from a copywriting and publishing company, refers directly to the touchy subject of falling union membership and offers unions "the help of experienced professionals" in recruiting members.

The changed emphasis on the human face of trade unionism even extends to an introduction of this year's TUC president, Mr Fred Jarvis, which explains how he often "dons the claret and blue to cheer on his favourite football team, West Ham."

The matching concern for the movement's public image is reflected in a sympathetic article on press, television and radio coverage headed "Watching them watching us . . ." which explains the problems of covering the Congress and refers to the "difficult task" facing reporters.

It points out that the 1,000 delegates to Congress are likely to be outnumbered by representatives
some 1,600 accredited media

However, delegates might be rather surprised by one advertisement offering a range of business machines for union offices which highlights equipment made by IBM—a company nest notable in TUC circles for being predominantly non-union.



APPOINTMENTS

Acquisitions bring Weir Gp changes

WEIR GROUP has made *organisational changes following* recent acquisitions. They are aimed at integrating Mather and Platt Machinery, Manchester, into Weir Pumps. **Mr Bill McLean** *becomes the group director* responsible for all operations at Manchester during the merger. Another new role will be to ensure that other future acquisi*tions are successfully merged* into group operations. Mr McLean has also been appointed chairman of Tooling Products Holdings, another recent acquisi*tion, and G. Perry & Sons.*

Mr **Peter Syme** has been appointed managing director of Weir Engineering Services. He will be responsible for the engineering *services divisions of* both Weir Pumps and Mather and Platt Machinery, Mainwork-Weir, and Weir Engineering, Holland and Dubai. He remains a director of Weir Pumps. **Mr John Hood** will succeed Mr Syme as managing director of Weir Pumps and will have charge of all group pump operations. Appointed to the board of Weir Pumps are **Mr John Frew** and **Mr Harry Lang.** Mr Frew has been promoted to production director from general manager, production. Mr Lang succeeds Mr Hood as sales and marketing director. He was formerly general manager, export sales and licence development.

★

At the ASSOCIATION FOR PAYMENT CLEARING SERVICES **Mr Brian Pearse** has succeeded **Mr John Harris** as chairman of council. Mr Pearse is chief financial officer and a director of Barclays Bank.

★

KANSALLIS OSAKI PANKKI, London, has appointed **Mr Hannu Linnoinen** as senior manager, capital markets marketing and the Finnish desk.

★

TRIPLEX LLOYD has appointed **Mr John Constantine** as a non-executive director. He retired last April from his post *as senior partner of Thomson* McLintock and Co's Birmingham office.

★

EALING ELECTRO-OPTICS has appointed **Mr David Hill** as chief executive, **Mr David (Sandy) Saunders** as non-executive chairman and **Mr Colin Gervaise-Brazier** as a non-executive director. The three form the team which recently took over the company via Sagemill, with institutional backing. **Mr M. L. D. Windsor** has resigned both as chairman and a director of Ealing Electro-Optics. **Professor J. C. Dainty** has also resigned as a director, but will continue to provide advice *to the company on technical* matters.

BRITISH GAS has made the *following appointments:* **Mr James Marris**, HQ director (operations) to be regional chairman, British Gas Northern; and **Mr Douglas Ebdon**, regional *director of corporate* planning and management services, British Gas Southern, is to be regional deputy chairman, Scotland. Mr Marris takes up his *new appointment* on January 1. He succeeds **Mr Keith Summersgill** who retires on Deember 31. Mr Ebdon takes up his appointment on October 19.

★

NEWEY & EYRE has appointed **Mr Jon Brockett** as managing director. He was group commercial director. **Mr Ron Douglas** is promoted to commercial director, from commercial manager. Newey & Eyre is a BTR company.

★

Mr Robin Baillie has been appointed chairman of BURSON-MARSTELLER FINANCIAL. He was managing director of

Mr Robin Baillie, Chairman, Burson-Marsteller Financial

Standard Chartered Merchant Bank and an executive director of Standard Chartered Group where he is now a non-executive director.

★

Mr Michael McDonald has been appointed sales and marketing *director of PEX*, children's hosiery manufacturing and marketing division of Palma Group. He joins from Booker McConnell where he was national sales *manager, health* feed division. **MR DAVID JINKS** has been appointed design and development director. He joins from Nicholls and Wileman *where he was production director.*

★

R. J. TEMPLE & CO, a member of the Sale Tilney group, has appointed ***Mr David Lloyd*** as investment manager responsible for clients' funds under management. He was with American Life Insurance Co, *where he was assistant actuary* (marketing).

CONTRACTS

Controlling TV advertising

Enterprise Airtime Systems—whose television advertising booking system running on **HONEYWELL BULL** *large-scale* computers handles the advertising for 13 of the UK's 15 ITV companies—has ordered a £1.8m DPS88 very large system for installation at the group's headquarters at Thames Ditton. South Wales Constabulary, for many years users of Honeywell Bull computers, has signed for further new systems, refurbishment of existing equipment, and environmental control projects in total valued at £1.2m. Included are are two DPS6 computer systems, one to run **HOLMES** (Home Office Large Major Enquiry System), the other to run the recently announced Honeywell Bull administration applications, including the police personnel system and firearms and shotgun licencing system, and a new police vehicle fleet management system. The Holmes facility will have the capacity to support multiple major enquiries concurrently on-line to any or all of the 20 designated incident rooms throughout the three *counties of* Glamorgan.

★

The utility Furnas Centrais Eletricas S/A, Rio de Janeiro, has awarded a contract worth SKr 30m (£2.9m) to the Brazilian unit of **ASEA RELAYS** for the supply of relay protection and control equipment. This will be used for the first 800 kV, AC transmission lines with series compensation in Brazil. The contract covers the supply of some 90 protection and control cubicles, which are to be delivered in the next two years.

Thomson Regional Newspapers are *completing an entire group* re-equipment with the installation of a £500,000 Press II system for the multi-title Chester Chronicle and Observer Series. From ***PRESS COMPUTER SYSTEMS*** Wolverhampton, the first phase of the installation at Chester takes place this month and consists of two PDP 11/73 central processors, each with two 80mb drives, and a total of 43 Tandberg VDUs, 43 Olivetti PCs, five Facit printers and one Data Products printer.

★

Austin Rover has placed two contracts worth a total of nearly £2.5m for equipment to build the K series of engines. The first contract is for two in-line transfer machines for drilling oil holes in crank shafts. The order worth almost £1.2m, has gone to **THOMAS RYDER AND SON** Derby. The second contract worth £1.2m, has gone to **MARBAIX-LATOINT**, Watford to supply three vertical broaching machines for K series con rods and caps. The machines smooth off rough-forged con rods. Work on both contracts should take just over a year to complete.

Come on down, newsmen—the market's right

JOHN LLOYD

BILL STEWART produces The Price is Right, one of television's most popular game shows. On it volunteers from a studio audience guess the price of products displayed before them. The one closest to the price wins the product.

Stewart is thinking of producing a current affairs series. In a talk at the Edinburgh Television Festival last week, he gave his audience—overwhelmingly from the "serious" and current affairs side of television—a taste of how it might go. The first one might be about defence. Mr George Younger, Secretary of State for Defence, would be invited to appear before it. Mr Stewart would be host. He would ask the audience (pointing at Mr Younger): "How many of you recognise this bloke?"

Stewart looks and sounds as though he has knocked about a bit, seen a few things and is nobody's fool. A former Butlin's Redcoat, he works The Price is Right audience — drawn from factories, offices and clubs — into a state of hilarious anticipation before the show is taped with its regular presenter Mr Leslie Crowther. His show has been called "a weekly advert for Thatcherism" (though Mr Stewart spoke in Edinburgh of allegiance to Dr David Owen).

It is so called by, among others, the kind of people who at present make much current affairs television. At Edinburgh, Stewart was confronted by the editors of Thames TV's This Week and Granada TV's The World in Action—both passionate in the defence of their programmes' ethos to investigate, to challenge, to analyse and to discover.

The journalistic laurels won by these programmes are legion. Their style is tough, concerned, arresting. But, of course, they assume an audience conversant with the current affairs context—or at the least the programmes are better appreciated when such *a context can be assumed.*

None of the weekly "flagship" shows: This Week, World in Action, London Weekend Television's Weekend World, and the BBC's Panorama would think of asking people to identify Mr Younger.

But now they are under attack. Mr Stewart's ideas are backed by those in television hierarchies worried by the drop in some ratings, by the age of their formulae, and who are looking for a new mould. They want to do current affairs, they say, but they want the masses to be engaged by it. They speak in the name of anti-elitism. They want something which might be called The News is Right.

All of this is not just an arcane debate among broadcasting folk. It speaks to the heart *of how a democracy* is informed and the concept of public service television. Both "sides" insist that the public has a right to know, *but one side says that this* right lacks meaning so long as the masses are bored by what the present flagship captains insist is important. The captains also suspect that behind their opponents' popularism lurk the new international media barons—Mr Rupert Murdoch, Mr Robert Maxwell, Mr Silvio Berlusconi—wishing to create remunerative prime time slots for pap.

The inert element in this issue is the mass audience itself. As Christopher Dunkley has observed in his column, most FT readers either do not watch much TV, or watch the programmes which the mass audience does *not. FT readers* are *either* professionally or intellectually concerned with issues which seldom touch the majority.

To attempt a *generalis*ation: popular concerns tend to those matters which directly touch personal experiences; elite concerns *take in matters of abstract* interest including that indefinable area which is known as "What the well informed person should know," or can talk about at dinner parties.

The result of the Portuguese elections is a recent example and while no doubt dinner party conversations on that theme may conceal (or reveal) all kinds of personal interplay and intellectual peacockery, the subject still has a dynamic which depends upon the acquisition of information and analysis provided by experienced reporters and "experts."

The lessons the new populists draw from this is to segment the TV audience; to make mass current affairs programmes about topics and in such a way as will touch on experience — abuse of children; TV violence for example — and to put the Portuguese elections and, for that matter, the Peter Wright case (probably, though some might make a case for doing him "pop") at elite times such as late evenings or at weekends, clearing the early mid-evening slots for the new style current affairs.

Programme makers are right to argue that this will devalue the profession of TV journalism. In particular there can be no assumption that were the new current affairs to become general, funds would still be available for the expensive investigation and analysis which the elite shows need; nor that the new people would observe the journalistic verity that, in the ultimate, free journalism must be prepared to challenge private and state cen*tres of power with energy* and courage. A throwaway remark in Edinburgh, by Mr Stewart — "If it's boring don't put it on"—does not *encourage confidence.* ... ...

But the impulse to engage or re-engage a mass audience in current affairs is a correct challenge. If that involves re*minding those in power—like* the Defence Secretary—that he is all but invisible and that he should be called to account before and by people who do not share his cultural assumptions and who are not of his class (as many elite journalists, no matter how radical, are), then it should be attempted.

The results might be both exhilarating and valuable. It might show that the masses are not inert, to be preached at or condescended to, or for that matter assumed to be interested only in the price of products — though most of us are that.

It was notable, for example, that in covering the last general election many TV producers threw their politician-guests before the public — either in the studio or on the 'phone — and that a few of these people stopped the politicians in their tracks as no interviewer had or perhaps could.

Current affairs with mass appeal *could stimulate* a more popular debate which would by definition shake the assumptions of both conservative and radical elites whose *circling round* each other provides much of the meat of current affairs. That would be a gain.

INTERVIEW

No way round

Andrew Gowers talks to Yassir Arafat, leader of the PLO

DOWN A BUMPY track about 15 miles south of Tunis, in a heap of rubble and building bricks, lies the ramshackle township of Hammam Shatt. Unprepossessing as it may seem, this huddle of houses constitutes what is left of the headquarters of the Palestine Liberation Organisation, heavily bombed by Israeli warplanes nearly two years ago.

The Palestinians have not been driven away, though their presence is scattered and much reduced. Nor has Mr Yassir Arafat, the organisation's long-serving chairman, who believes the Israelis were out to kill him when they bombed Hammam Shatt. From a series of small offices around the Tunisian capital, he is keeping an ever-hopeful eye on what he believes are serious international moves aimed at reviving the moribund Middle East peace process.

"Here we are," he says with a grin and outstretched hands, the ultimate *survivor* at the head of an organisation which prides itself principally on survival. "Nobody can liquidate five million Palestinians. We are *not the Red Indians.*"

At the age of 58, Arafat, wearing the familiar khaki fatigues and on his head, the black-and-white chequered kaffiyeh, is a *man of manifold contradictions* and apparently irrepressible energy.

He contrives to present himself simultaneously as warrior and peacemaker. *He* claims to have time on his side in the battle with Israel, yet grabs hungrily at any tactical opportunity for negotiations. He is, at *once, an interlocutor of* world statesmen and the leader of an ill-organised and often exasperating exile movement. Many would argue he has disqualified himself from any effective role in the peace process.

On an objective analysis, there would appear to be few crumbs of comfort for him on the horizon. The Palestinians are under continuing pressure in their camps in Lebanon. Arafat admits that he is still seriously at odds with his bitterest enemy, President Hafez al-Assad of Syria, despite intense reconciliation efforts. Many of his fighters are scattered to the foreigners — scattered to the fringes of the Arab world and the PLO has so far been frozen out of the latest peace efforts by King Hussein of Jordan.

Yet Arafat's confident slogans continue unabated. The defeat he suffered when forced to quit Beirut in 1983 after the Israeli invasion of Lebanon has been turned into another kind of victory.

"When the war started in 1982, Sharon, Eitan (Israel's defence team) and others said they'd finish it in two or three days . . . What happened? The longest Arab-Israeli confrontation.

"Not only that, but also the longest and most successful war of attrition against the Iraelis . . . It's true that I haven't been able to defeat them by knockout, but definitely, on points, they have been defeated," he says, stabbing his pen on the desk for emphasis.

South Lebanon, Arafat makes clear, remains a focus for Palestinian hostilities against Israel,

● PERSONAL FILE

1929 Born in Cairo
1946 Involved in gun running to Palestine from Egypt
1950 Studied for civil engineering degree, Cairo; student activist
1952 Elected President of Palestinian Students Union
1957 Worked in Kuwait as an engineer
1965 Formally established Fatah guerrilla group
1968 Joined PLO
1969 Elected chairman of PLO executive committee. Following expulsion of Palestinian forces from Jordan in 1971 and from Lebanon in 1983, and following estrangement with Syria. Arafat now divides his time between Tunis and Baghdad.

often in co-ordination with Shi'ite Lebanese fundamentalist groups. He insists that the PLO has abandoned terrorist activities outside the occupied territories and that he had nothing to do with the hijacking of the Italian cruise ship, the Achille Lauro, in the eastern Mediterranean nearly two years ago.

Arafat is not put off when it is suggested to him that years of armed struggle have not recovered for his people a singl inche of Israeli-occupied territory. He tends to attribute this relative military impotence to the deep divisions of the Arab world, which he compares unfavourably with the single-minded approach of Iran to its war with Iraq.

"Are you following the battles east of Basra?" he asks. "Can you imagine that the Israelis could face one of those battles?"

Arafat is on rather more convincing ground, and chooses his words more carefully, when he talks about the political moves now afoot to set up an international conference on the Arab-Israel dispute. "No doubt there is now a consensus for the international conference, which has been accepted at all international levels," he says.

He speaks approvingly of the European Community's declaration early this year in support of a conference. He even enthuses about recent signs of a chang in US and Israeli attitudes. "For the first time the American Administration has accepted it in principle. Also a part of the Israelis—the Labour Party.

"It is true that they are looking for their international conference, not our international conference," he concedes in a reference to continuing disagreements over the structur of any such gathering, and in particular Israel's refusal to countenance PLO attendance.

"But that's all part of the game. I'm not expecting that they will accept my point of view directly."

Nor does he regard the currently troubled state of the PLO's relations with Jordan as an insurmountable obstacle to negotiations. King Hussein broke off talks with Arafat last year, saying he had lost patience with the PLO leader's prevarications over crucial Security Council resolutions recognising Israel.

This appeared at the time to bury prospects for a Palestinian-Jordanian joint delegation at any peace conference, which was seen as the only practical way of getting the PLO involved in the peace process.

As a way around that *difficulty*, Arafat, who still believes the rupture was prompted by American and Israeli pressures, now says he is prepared to join *a united Arab delegation to the* conference.

He does not object too loudly to suggestions that Jordan, Egypt and Israel have been trying to find alternative, non-PLO, Palestinians to participate, saying this merely proves that the Israelis "know in the back of their minds that they can't bypass the Palestinians." And he says the ultimate goal must still be a confederation between Jordan and the Palestinians, because "we have a privileged relationship with the Jordanian people."

But by far Arafat's warmest praise is reserved for the role being played by the Soviet Union, which he said helped set up the show of PLO unity at the Palestine National Council meeting in Algiers in April and is trying to mediate between the PLO leadership and Syria. The PLO chairman says he is likely to go to Moscow at the end of this month for talks with Mr Mikhail Gorbachev.

"No doubt Comrade Gorba*chev is looking . . . at the* Middle East with a new vision, and not only the Middle East. In all the international problems—and even in interior sub*jects—he has a brand new* vision. It is a true vision of principles, and practical too.

"They began to deal directly with the Palestini'ns, and with PLO leadership. At the same time they are putting more efforts into the international conference, dealing with all its aspects and with all *the parties concerned.*"

Despite the flurry of international activity, however, Arafat clearly sees himself consigned—as he has been for the *last 18 years—to playing a wait*ing game. "We have to wait and see," is a recurrent phrase.

Maybe a conference will take place within the next year, he says, but if not it will be delayed for at least another two years until well after the 1988 US presidential election is out of the way. If not? "We have to wait. We are not in a hurry."

Things can scarcely be otherwise. Neither Israel nor the US is likely to agree to talk to the PLO as long as it refuses to accept Security Council resolutions 242 and 338, which recognise Israel's right to live in peace within its pre-1967 borders. It seems equally clear that neither side can budge until a tangible, structured negotiation is within their grasp.

The point often overlooked, however, is that behind the PLO's strident rhetoric and Arafat's own colourful slogans, there is little doubt that he accepts that the state of Israel, in some form, is an irreversible fact.

"*I am not dealing with* ghosts," he says when pressed on this question. "They are my enemies and I have to deal with them in any of their forms. And they have to deal with me in my forms too."

It is Arafat's great merit that he has been able to create sufficient freedom of manoeuvre for himself within the fractious PLO to maintain at least the semblance of a belief that negotiation is possible. Since no comprehensive negotiation has *been on the cards up to now,* his real ability to deliver and to override the powerful opposition within the organisation to any hint of flexibility has never *been put to the test.*

In the meantime, whatever the reality of his position, Arafat remains a potent symbol for Palestinians of their continued willingness to resist and *of their rejection of attempts* by others to impose a settlement.

The PLO leader dwells con*sistently on this theme:* his belief that in spite of the passage of time and the birth of new generations who have no direct knowledge of Palestine itself, and in spite of all the efforts of Israel and others to make limited deals which shut them out, the Palestinians remain a force which will eventually have to be reckoned with.

If not, he says in one of his favourite phrases, the West will continue to face "the typhoon" —the growth of irrational, hostile sentiment in the Arab world, of which he says Islamic fundamentalism is a part.

"In 1956, when John Foster Dulles was making his plans, he was asked: 'What about the *Palestinians? There is nothing* concerning the Palestinians in your plans.' He said they were under the feet of the elephants. Those old generations knew *Palestine would die and the new* generation would be obliged to live spread in the diaspora.

"What happend? They are now facing the new generation, and the majority of them don't know Palestine. Western minds have come to depend on computers; they are not following the typhoon."

The justice of extradition

JUSTINIAN

WHEN BELGIAN law enforcement officers arrive in Britain this week to escort 26 young men from Liverpool to face criminal proceedings arising out of the Heysel stadium disaster in May 1985, it will mark the end of an out-dated mode of extradition. The case will also highlight the comparative values of criminal justice among the countries of western Europe —all of them adhering to common basic principles of fairness, and the protection of civil rights.

The English system of extradition dates back to 1870 and reflects an amalgam of executive and judicial action. The request for the surrender of a fugitive criminal begins and ends with a Governmental response. In the first instance, the Home Secretary considers the foreign country's request, and if satisfied that the request is proper, authorises the judicial process.

The magistrate at Bow Street will then decide whether the evidence properly adduced raises a prima facie case, in much the same way as if he were hearing a case for the committal of an accused for trial in an English court. If he finds that there is a case to answer he commits the individual to prison in this country to await surrender to the foreign authorities. The Home Secretary must decide whether to issue his warrant of surrender, which allows the foreign police to remove the fugitive criminal from this country.

Much of the two-year delay in the Heysel case centred around an alleged defect in the production of evidence by the Director of Public Prosecutions who acts on behalf of most of the foreign Governments seeking the return of fugitive offenders. The importance of adherence to strict procedural requirements is manifest. There have been recent problems in getting fugitive criminals back to this country from the Republic of Ireland. Any system is bound to demand that a Government should have its tackle in order before it can get a fugitive criminal to trial. But any delays on the score of *procedural deficiencies* are minimal compared with the long drawn out process of evaluating evidence.

The Criminal Justice Bill now before Parliament will reduce the judicial element in the duopoly of extradition, ensuring that only the procedural formalities are observed. No longer will the courts test the *quality* of the evidence. The traditional function of evaluating evidence will be restricted to the current arrangements under legislation of 1967, for the return of fugitive offenders within the Commonwealth.

This change has been forced by the internationalism of crime —together with the increasing irritation of civilian legal systems who have to comply wth an Anglo-Saxon system of elaborate committal proceedings. The modern view is that if a treaty of extradition is negotiated between sovereign states it is presumed that there is a mutual trust in the two countries' legal systems. It is often an accident whether the accused is still in the country where the crime was committed. National boundaries ought not to cut off the long *arm of the law but should tele*scope legal hands across the frontier.

So far as western European countries are concerned, there is common adherence to the principle that every accused person is entitled to a fair trial before an independent and impartial tribunal.

Talk in Britain about an unfair trial for the 26 in Belgium is wildly misconceived. The Belgium judiciary is as impartial and independent as that in England. If it is thought that prejudice among the Belgium people towards the 26 Liverpudlians will spill over into the trial, it is well to remember that any such infectious bias would more likely be present were the 26 to be tried by 12 good men and true in England than by the three professional judges in Belgium.

None of this detracts from a pervading worry about the forthcoming trial, one which would be *just as prevalent* were the trial to take place in England. It cannot be doubted that a serious criminal event took place in the Heysel stadium just before the European Cup Final between Liverpol and Juventas. The concern must be to decide where criminal responsibility lies. The law seeks to affix liability on the individual. But how is he to be identified with the degree of confidence necessary for a criminal conviction.

And is there not a collective responsibility for which the criminal process is not an apt instrument for assuaging public anger over the incident? And what has happened to the Juventas supporters who form the other side of the battle line? At the end of the Belgium trial (whatever the outcome) the authorities on both sides of the English channel may bitterly regret not having ordered an international Commission of Inquiry to point to those who were responsible for the disaster—the stadium authorities, the Government authorities, the police, or the fans?

DIARY DATES

BUSINESS DIARY

Current
Autumn Gifts Fair (01-855 9201) (*until September 10*) ***Olympia***

September 8-11
Offshore Europe Exhibition and Conference (01-549 5831) **Aberdeen**

September 8-19
Chelsea Antiques Fair (04447 2514) **Old Town Hall, Chelsea**

September 13-16
The MAB International Menswear Fair (01-508 4794) **Earls Court**

September 14-18
International Welding, Cutting and Metal Fabrication Exhibition —WELDEX (021-705 6707) **NEC, Birmingham**

September 20
Antiques Fair (01-883 7061) **Alexandra Palace**

September 22-23
The Home Video Products and Services Exhibition—Vidtel 87 (*021-780 4171*) **NEC, Birmingham**

September 26-October 1
Automotive Trade Show (01-235 7000) **Earls Court**

September 27-30
Harrogate Fashion Fair (01-637 2400) **Harrogate Exhibition Centre**

September 29-October 1
Fashion Fabrex Exhibition (01-385 1200) **Olympia**

October 1-3
"Building a Better Britain" Exhibition (01-724 *5012*) **Business Design Centre, London**

October 6-8
Transport and Distribution Services Show (01-900 1234) **Wembley Conference Centre**

October 13-16
Meeting Place for Technology Transfer Exhibition — BARCLAYS TECHMART (021-780 4171) **NEC, Birmingham**

September 18
The Economist: The privatisation *of the water industry (01-839* 7000) **Marriott Hotel, London**

September 20-22
Metal Bulletin Conferences: Turkey's industrial minerals (01-330 4311) **Istanbul**

September 21-23
The Third International Asia-Pacific Petroleum conference (Singapore 7349385) **Singapore**

September 24
Tolley Conferences: Payroll manager's review—first annual updating (01-680 5682) **London Press Centre, EC4**

September 24-25
The Economist: Asian investment outlook: analysing the trends and *assessing the opportunities (01-*839 7000) **Grand Hyatt Hotel, New York**

September 29-October 2
RMDP: EPoS with EFTPoS congress and exhibition on computers in retailing and distribution (0273 203581) **Barbican Centre, EC2**

September 29-30
Acquisitions Monthly / Business Research International: How to buy and sell companies (01-637 4383) **Hotel Inter-Continental, W1**

October 4-9
IPM: Selecting managers—advanced interviewing and assessment skills (01-946 9100) **Bristol**

Current
International Autumn Fair (01-240 7013) (until September 12) ***Leipzig***

September 6-9
International Exhibiton of Sports Goods and Leisure Equipment (01-255 5566) **Paris**

September 8-13
International Computer Technology and Communication Equipment Exhibition—TELECOMP (01-481 1951) **Beijing**

September 21-24
International Hotel and Catering Fair—IGAFA (01-486 1951) **Munich**

September 21-25
International Industrial Maintenance and Cleaning, Municipal Refuse Disposal and Destruction, etc, Trade Fair (01-741 4437) ***Amsterdam***

September 29-30
Display and Incentives Exhibition (Dublin 900600) **Dublin**

September 30-October 4
Overseas Import Fair "Partners for Progress" (01-930 7251) **Berlin**

October 6-10
Machine Tools Exhibition—FINNTEC (01-486 1951) **Helsinki**

October 10-15
International Photographic, Cinegraphic, and Optical Equipment Exhibition (01-255 5566) **Paris**

September 7-8
IBC: Broadcast radio into the '90s (01-236 4080) **London Press Centre, EC4**

September 10
The Institute of Directors: Expansion through franchising (01-839 1233) **116, Pall Mall, SW1**

September 10-11
Financial Times: World Motor (01-925 2323) **Frankfurt**

September 10
Tolley Publishing: Your company pension scheme—time for action (01-680 5682) a ***London Press Centre, EC4***

September 15-16
Euromoney: Short - term and medium-term financing alternatives (01-236 3288) **St Regis Sheraton, New York**

September 16
IRRG: Financial services—today and tomorrow (01-236 2175) **The Brewery, EC2**

Finance

TODAY

COMPANY MEETINGS—
Comoco Hldgs., May Fair Hotel, Berkeley Street, W., 11.00

BOARD MEETINGS—
Finals:
Magnetic Materials
Interims:
Asset Trust
Barker and Dobson
Barker and Dobson
Blackwood Hodge
Brammall (C. D.)
Canning W.)
Delaney
Friendly Hotels
Hambro Countrywide
Invergordon Distillers
Linread
Mallett
Mersey Docks and Harbour
More O'Ferrall
Persimmon

DIVIDEND & INTEREST PAYMENTS—
Barclays Bank 7¼pcLn. 1986-91 3⅝pc
Capital and Counties 3.5p
Cons. Gold Fields Nts. 1995 £117.5
Cromane Consumer Prods. 7¼pcLn. 1987-1992 3⅝pc
DDT Group 1.2p
Meyer Intnl. 4.85p
Prudential Fltg. Nts. 1995 £231.14
Rustenburg Platinum 110cts.
Sainsbury (J.) 7¼pc1stDb. 1987-92 3⅝pc
Scottish and Newcastle Brews., 5.54p
Stakis 0.54p
TR Pacific Basin Tst. 4½pcPf. 1.575p

TOMORROW

COMPANY MEETINGS—
Alphameric, Institute of Chartered Accountants, Moorgate Place, E.C., 12.00
Cheshire Wholefoods, *Mollington Banastre* Hotel, Great Mollington, Cheshire, 10.30
MS Intnl., Royal Hotel, Wollaton Street, Nottingham, 12.00
Multicore Electronics, Ironmongers Hall, Shaftesbury Place, E.C., 11.00
Stanley Leisure Org., Edward Pavilion, Albert Dock, Liverpool, 12.00

BOARD MEETINGS—
Finals:
Electron House
Haynes Publishing
Interlink Express
Intnl. Fin. and Invst. Cpn.
London Merchant Secs.
Interims:
ASD
Admiral Computing
Bodycote Intnl.
Costain
Emess Lighting
Expamet Intnl.
Goal Pet.
Hawley
Hestair
JMI
Ibstock Johnson
Lopex Communications
Provident Financial
Savoy Hotel
Technology Project Services
Tozer Kemsley
Wood (John D.)

DIVIDEND & INTEREST PAYMENTS—
Bank of Ireland Fltg. Nts. $201.22
Chase Manhattan Fltg. Nts. 2009 $197.92
Damon Cpn. 5 cts.
Drummon Group 2.5p
Enserch Cpn. 20 cts.
HongKong and Shanghai Banking Prim. Cap. FRN Sec. Ser. $99.78
Lockheed Cpn. 35 cts.
Renold 7⅝pc2ndDb 1992-97 3¹³⁄₁₆pc
Rockwell Intnl. 16.5 cts.
Tenneco 76 cts.
Treasury 10pc 2003 5pc
Yeoman Inv. Tst. 3.8p

WEDNESDAY SEPTEMBER 9

COMPANY MEETINGS—
Arlen, Savoy Hotel, Strand, W.C., 11.30
ASDA-MFI, Pudsey Civic Hall, Dawsons Corner, Pudsey, Leeds, 2.30
British Telecom, Nat. Exhibition Centre, B'ham., 2.30
Firth (G. M.) Swallows Hotel, Wakefield, 12.00
Moorgate Mercantile, Butchers Hall, Bartholomew Close, Barbican, E.C., 12.00
Wagon *Industrial*, Plough and *Harrow* Hotel, Hagley Road, B'ham., 11.00
Worthington (A. J.) Portland Mills, Leek, Staffs., 11.00

BOARD MEETINGS—
Finals:
Altumast
Interims:
Abbott Mead Vickers
Amari
BICC
BTR
Bowater Inds.
British Vita
Kleeriold
Moss Bros.
Neill (James)
New Darien Oil
Nurdin and Peacock
P. & O.
Prudential
Turner and Newall
Wilkes (James)
Wimpey George)

DIVIDEND & INTEREST PAYMENTS—
Alphameric 1.75p
Anheuser-Busch 15 cts.
Blick 1.6p
Bullough 4.3p
Christiania Bank OG Kreditkasse Fltg. Nts. 2001 $325.83
First Interstate Overseas Fltg. Nts. 1995 $188.47
Lewmar 1.625p
Midland Intnl. Fin. Services Fltg. Nts. 1999 $329.03
Royal Bank of Canada Fltg. Db. Nts. 2085 $19.166666
Royal Trustco Fltg. Dbs. 2085 $333.5

THURSDAY SEPTEMBER 10

COMPANY MEETINGS—
Birmingham Mint, Midland Hotel, New Street, B'ham., 12.00
Bulmer (H. P.) Green Dragon Hotel, Broad Street, Hereford, 2.30
Davy Cpn., *Royal Institute of Architects* 66 Portland Place, W., 12.00
Greycoat Group, Leconfield House, Curzon Street, W., 12.00
Harris (Philip) Penns Hall Hotel, Walmley, Sutton Coldfield, 12.00
Lynton Property and Reversionary, St. Ermins Hotel, Caxton Street, S.W., 12.00
Redland, *Plaisterers Hall*, 1 London Wall, E.C., 12.15
THORN EMI, Centre Point, 103 New Oxford Street, W.C., 11.45
Toos Estates, 33 Wigmore Street, W., 11.00
Zygal Dynamics, Barbican Centre, Barbican, E.C., 12.00

BOARD MEETINGS—
Finals:
DPCE
Framlington
Haggas John)
Isotron
Pifco
Sirdar
Thomson T-Line
Interims:
Acorn Computer
Assctd. British Ports
British Mohair
Burmah Oil
Campari Intnl.
Cookson
Cooper Alan)
Corton Beach
General Mining Union Cpn.
Home Counties Newspapers
Laing John)
Laporte Inds.
Memory Computer
P-E Intnl.
Rolls-Royce
Rowntree
Royal Dutch Pet.
Shell Transport and Trading
Tavener Rutledge
Tricentrol
Tyne Tees Television

DIVIDEND & INTEREST PAYMENTS—
Agricultural Mort. Cpn. 6⅝pcDb 1985-90 3⁵⁄₁₆pc
Allied-Signal 45 cts.
Barnes Group 30 cts.
Bogod-Pelepah 0.2p. Do. A (Rest/Vtg.) 0.4p
Chester Water 4.2pc 2.1p. Do. 3.15pcPf 1.575p. 3.85pcPf. 1983-88 1.925p
Chevron 60 cts.
Dun and Bradstreet 37.5 cts.
Exxon Cpn. 100 cts.
General Motors 125 cts.
Grace (W. R.) 70 cts.
Houston Inds. 72 cts.
Intnl. Business Machine 110 cts.
Kraft 47 cts.
Lynton Prop. and Reversionary 3.65p
MS Intnl. 1.5p
Mobil 55 cts.
Multibanco Comermex Fltg. Nts. 1992 $169.31
Nedlibra Fin. Fltg. Nts. 1988 $192.26
Romney Tst., 1.65pc
Scott Paper 34 cts.
Sun Co. 75 cts.
Travelers Cpn. 57 cts.
Treasury 5½pc 2008-12 2¾pc
United Technologies 35 cts.
Warner-Lambert 45 cts.
Wells Fargo Fltg. Nts. 1994 $190.52

FRIDAY SEPTEMBER 11

COMPANY MEETINGS—
Graig Shipping, 113-116 Bute Street, Cardiff, 11.15
KCA *Drilling*, *Gloucester Hotel*, Harrington Gardens, S.W., 11.30
Nordic Inv. Tst., 8 Devonshire Square, E.C., 10.00
Radiant Metal Finishing, 69 Fairfield Rd., Bow, E., 10.30
Siebe, Cavendish Hotel, Jermyn Street, S.W., 12.30
Tipsley (Eliza) Chamber of Industry and Commerce, 75 Harborne Road, B'ham., 11.30

BOARD MEETINGS—
Finals:
Intereurope Technology Services
Pacific Sales
Interims:
Baynes Charles)
Delta
Systems *Reliability*

DIVIDEND & INTEREST PAYMENTS—
Birmid Qualcast 1.75p
Birmingham Mint 4.25p
Boeing 35 cts.
Cheshire Wholefoods 2.03p
Elandsrand Gold Mining 50 cts.
Graig Shipping 10p. Do. A N-Vtg. 10p
Greycoat Group 1.55p
Harris (Philip) 6.25p
Meldrum Inv.-Tst., 7.2p
Monsanto 70 cts.
Radiant Metal Finishing 1.75p
Rights and Issues Inv. Tst. 1.2p
South African Land and Expln. 7.59241p
South *vaal Hldgs. 109.33076p*
Time Inc. 25 cts.
Vaal Reefs Expln. and Mining 288.51179p
Western Deep Levels 88.07202p. Do. $ 290 cts.

SUNDAY SEPTEMBER 13

DIVIDEND & INTEREST PAYMENTS—
Hydro-Quebec 12.75pcLn. 2015 6⅜pc

THE ARTS

Architecture/Colin Amery

Aesthetic quality is the important touchstone

It promises to be a fruitful autumn. The summer election seems far away but its consequences are only now about to be felt. Yuppies on the Turkish beaches and property developers at Cap Ferrat have all had time to draw a brief summer breath before the cycle of rebuilding resumes its ferocious pace.

It is probably true to say that there has seldom been so much architecture and building about; recent RIBA figures show that architects are earning 10 per cent more than they were last year. Building contractors have so much work that they are petitioning the Government not to put the clocks back one hour in October—the lighter, longer evenings would allow more time to complete work. Bricks, which we all know are beautiful, are not always available, such is the demand. There is even talk of mooring large ships in the Thames to house building workers for booming Dockland—and that is before Canary Wharf takes off.

All this activity is not confined to the South-East. Mrs Thatcher's prompt post-election pledge, "the inner cities, the inner cities . . . no slacking" has yet to produce solid results, but there is no doubt that she has hi-jacked an area of concern into Government hands, away from the inactive moaners she so deplores. The new quartet of ministers, William Waldegrave, David Trippier, Lord Young and Kenneth Clarke, look like a strong team to achieve results working with the Urban Development Corporations in the inner cities.

The Government's intention to introduce a major new Town and Country Planning Bill, following up on the Department of the Environment's reforming consultation paper published last September, will focus attention to the vital area of the effect of party politics on the decision making process.

The proposal to abolish Structure Plans is probably a sensible one, but it is likely to antagonise county councils and conservation groups. Fears that new policies on agricultural land combined with new planning rules could lead to the concreting of the countryside will be heard loudly this autumn. New road building plans also indicate an extension of associated development.

Where will architecture feature in the forthcoming months of debate? It is itself at a fascinating crossroads. At Portland Place the new President, Mr Rod Hackney, has already started the cleansing of the temple. The management report prepared for the RIBA by Hay Management Consultants and published in July exposed the chronic managerial weaknesses of the profession's own institutional organisation. Despite regular denials from successive presidents that anything was wrong it is now obvious that a totally ineffective government of the profession needs very radical reform.

The departure of the secretary of the Institute, Mr Patrick Harrison, leaves the way clear for the new President to appoint a powerful new director-general. His task will be a complete overhaul of the professional institute which has long been a 19th-century organisation unable to tackle the changes in practice that any architect has had to cope with in his daily work. Mr Hackney is known for his political nose and enthusiasm for power. He is also a masterly manipulator of the media; his tasks as President are enormous.

Rod Hackney is not a man to stand at the architectural crossroads watching the traffic in all its confusion. He has already demonstrated some of the powers that can be released if local communities are able to take matters into their own hands. There is an irony in this. He sees the architect as enabler, which is fair enough. He is not himself particularly interested in design and the visual consequences of his activities are not always appealing.

What the Royal Institute lacks (and even its occasional interested xisitor, the Prince of Wales, does not yet supply) is a conviction that the aesthetics of design are at least as important as the economic, political and social concerns of architects. The real debate in the months ahead must find a way of making aesthetic palicy the touchstone of architectural success.

There is plenty of opportunity. In the capital alone there are a multitude of major sites about to be redeveloped. It is worth listing them.

● Spitalfields Market, where there are three competing schemes, is likely to be the setting for some kind of classical revival. The return of a London street pattern is to be welcomed but the out of scale blocks reminiscent of Grosvenor Square neo-Georgian are not very inspiring as designed by Quinlan Terry. Another kind of classicism may grow on the South side of the Thames if Terry Farrell's housing scheme by Vauxhall goes ahead. This is one of the best things that Farrell has produced in terms of scale and massing by the river. If he can stretch beyond the derivative post-modern whimsy, this could easily be an important success as a scheme.

● The area around St Paul's Cathedral still calls for an inspired plan for more than just the Paternoster site. This is a clear case for special treatment which should begin with the drawing up of a comprehensive brief for the whole area. Richard Horden, winner of the Land Securities competition for an office block over the wall from Buckingham Palace at Stag Place in Victoria (with Richard Rogers's participation in the associated shopping development), promises a kind of high-Texan approach that could be very intriguing. Houston and Paris meet at Victoria.

● The vast development north of King's Cross station and St Pancras, proposed by Rosehaugh Stanhope developers, offers an amazing opportunity. The developers' love affair with American architects has produced the unlikely combination of Skidmore Owings and Merrill working with the adventurous Californian Frank Gehry. It is to be hoped this scheme will be published as soon as possible—it is too important to be left to thet private wooing of planning committees.

● Smithfield, where the meat market is contracting, is the next place for a Covent Garden-style revival: is this to be London's Musée d'Osay It is certainly a wonderful chance for the City to make amends for the architectural unhappiness of the Barbican.

● It is now also the time for a new look at recent architectural history, as post-war buildings are considered for listing. Architectural students certainly love the 1950s; will they fight to protect the Royal Festival Hall and the wavy concrete roofs of 1950s' housing estates?

If the autumn is a time for quiet consideration by the fireside in the long evenings, then there is plenty to ponder on the architectural front. It is a time of change, debate and activity on many fronts. It is also a time to separate the wheat from the chaff. That separation is an aesthetic matter and one that mut not be shirked.

Brendan Neiland's new architectural paintings go on exhibition at Fischer Fine Art in London on September 9: he is one of the few artists who paints the triumphs of modern architecture

Penultimate Fancies

Dominic Gill

Instead of submerging myself in the whole of the long afternoon-to-evening's music-making, as I had the previous weekend, I chose instead to concentrate on just the middle and most substantial part of last Saturday's penultimate day of "his fancies, his toys, his dreams"—the South Banks' Summerscope series devised and chosen by Harrison Birtwistle.

Almost every programme has included an arrangement or setting by different composers of Machaut's *Hoquetus David*—a theme to link the sequence of programmes, and also a way of bringing, in Birtwistle's words, "something of the present century" to music which is by now to us, after so many centuries of shifting perspective and technique, in many aspects of its procedures uncommonly arcane and strange. I'm not absolutely convinced of the value of the exercise, except as a convenient programmatic link: but the results have been interesting, and occasionally unpredictable.

Saturday's main programme, played by Music Projects/London under the founder and conductor Richard Bernas, began with what seemed in its unpretentious way one of the most original and poetical of the week's responses to the Machaut original. When he first heard *Hoquetus David*, Simon Holt (b. 1958) was struck—alone it sems among the week's commissioned composers—principaly by the carillon-like effect of the piece,and his arrangement distils that "bell-music" into a six-minute essay of chimes for three percussion groups playing only vibes, tubular bells, and crotals: delicate, but of strong and perceptible fibre, haunting in its resonance.

The programme's other premiere (and like all of the Machaut arrangements, also a South Bank commission) was *Preludes and Maze Dance*, by Philip Grange, a crisp and sharply-aimed study in sonority and rhythmic pulse for piano, oboe, clarinet, and three percussionists. Grange himself calls it "a labyrinth"—and indeed its counterpoints fooled at least one of the percussionists into at least one major omission. But the neat, pungent effect remained: an intriguing, robust piece, which one looks forward to hearing again.

The rest of Music Project's programme was devoted to Luigi Nono's homage to his compatriot Dallapiccola, *Con Luigi Dallapiccola* — strong, lyrical music, darkly coloured, sprinkled with bells and crotals, in its broad sweep woven with great feeling; and to a pair of contrasting accounts of Varèse's *Ionisation* for percussion band, in versions which used (as the composer's alternatives allow) first high-pitched, and then lower-pitched, instruments — virtuoso performances both, deftly directed; it was surprising not so much how different the two performances sounded in their different instrumentation, but how many of the fundamentals of the music, and how much of its elemental force, remained precisely the same.

Everything in the Garden

Claire Armitstead

Giles Cooper's *Everything in the Garden* belongs to the time-honoured school of comedy that kills laughter stone dead. It starts out amiably enough in the "what if . . . ?" (in this the "what if . . . ?" vein (in this case, what if a perfectly to be turning tricks to supplement hubby's earnings?) and ends up an acerbic indictment of the sort of middle class morality which confuses propriety with discretion: it's all right to keep the local madam in the manner to which her clients are accustomed, as long as the wags propping up the golf club bar are unaware of it—or, better still, if they are doing it too.

Cooper, a prolific writer whose contribution to radio drama is enshrined in the Giles Cooper awards, has suffered an undeserved popular eclipse since his death at the height of career in 1966 .This revival at Watford Palace, under Brian Stirner's direction, reveals a shrewd and sophisticated wit which demands and deserves a first class display case.

Everything in the Garden is a dangerous play because it sails so close to the very things it is satirising: in a production that elegantly recalls the brittle modernity of the early '60s, we have Paula Wilcox in inch-long eyelashes yearning for a chance to be something useful, "not just a cabbage slaving away in the house," while her husband insists over his Daily Telegraph that he will not allow his wife to work. She collects silver for charity while he treats the grass to crewcuts with the latest in designer lawnmowers.

Ingrained in the social satire is a parody, possibly more acutely apparent now than when the play was written, of contemporary media stereotypes; the faux-naive flutterings of Wilcox's Jenny recalls a television tradition which engendered such sweets as Samantha, the good witch, in *Bewitched;* more embarrassing is what appears to be a dig at *Look Back in Anger:* the bear and squirrel duologue that ends Jimmy Porter's rebellion is names of Jenny and Bernard, flippantly reflected in the pet-prompting a loud discomfited whisper behind me, "who wrote this rubbish?" At that point in the first act I was inclined to sympathise; it is in the second, when Cooper turns the knife in the wound, that one realises with what surgical precision he has opened it.

The stereotyping of Bernard and Jenny is turned on its head as he discovers the real reason the house is stuffed full of money. The ensuing gathering of suburban society to celebrate the "miraculous" windfall is outrageously adroit, pitting Victorian values against the urge for affluence and concluding that the two are perfectly compatible given one or two tucks in the conscience. Thus the adolescent Roger (Antonio Peluso) is sent to his room for mentioning circumcision while his parents debate with their friends how best to accommodate a brothel. In the background a game of cricket is conducted as if in running commentary on the sporting ethic which is being so flagrantly flouted on stage.

The production gathers momentum after a start which tends to be ponderous. Paula Wilcox has a crisp pertness that neatly sets up the dissonance between appearance and reality, while Jonathan Newth, as Bernard, is appropriately rodlike. Sheila Burrell, as the Polish Jewish madam, and Jonathan Coy as the hectoring fashion artist stand beligerently, convincingly apart from the roomful of ciphers that comprise the rest of Woodfield Green society, in a revival that is well worth seeing.

Close-ups of three film directors

LOVE IS COLDER THAN DEATH
by Robert Katz. Jonathan Cape, £12.95, 234 pages

FELLINI
by Hollis Alpert. W. H. Allen, £12.95, 462 pages

WOODY ALLEN ON LOCATION
by Thierry de Navacelle. Sidgwick & Jackson, £12.95, 462 pages

Both the world and the cinema screen seem duller places without Rainer Werner Fassbinder. A *one-man succès de scandale*, his career lasted 13 years during which he made a staggering 43 films and consumed an almost equally staggering quantity of drugs and alcohol. He died in 1982 at age 37, on the threshold of an international career: a threshold he was perhaps lucky not to cross, considering the unfortunate things that can sometimes happen to genius when it goes international.

Robert Katz's biography Love Is Colder Than Death is virtually unputdownable, thanks to his own skill and the magnetism of his subject. Fassbinder the debauchee adds fascination to Fassbinder the artist and vice versa. I once visited one of the German *wunderkind's* movie locations. His acting troupe, quartered in a dingy Frankfurt hotel, waited all morning for their hungover director to materialise. Then he rolled blearily into view, got a ticking-off from his mother (who, as Katz points out, was a notable ogre in RWF's life, until he detotemised her by putting her in his films), and then got to work. Soon the scenes were peeling off the shooting schedule at an alarming rate. Fassbinder directed the actors, was his own cameraman, rewrote the dialogue at will, and generally behaved like a human dynamo on overdrive.

His best movies—The Merchant Of Four Seasons., Fear Eats The Soul, Lola, Veronika Voss—have no like in modern cinema. Their faux-naif or Hollywood-pastiche visual styles go hand in hand with a wonderfully complex approach to themes and characters. Katz's book helps to explain the background that produced an artist whose political creed was "a plague on both your houses"—he freely pilloried both Right and Left in his films—and yet whose nonconformism was mixed with a tender regard for the rules and riches of movie tradition.

It is well known that he idolised the 1950s Hollywood director Douglas Sirk, famed for high-gloss weepies like Magnificent Obsession. But Katz argues here that Sirk's films were not just *an* influence, but *the* influence, that turned Fassbinder from a minor underground talent (circa early 1970s) into a master-narrator and social chronicler.

Hollis Alpert's Fellini portrays a movie master with no problems in the area of longevity. Federico F is 88, the last survivor of his generation of great Italian film-makers (Visconti, Rossellini and company) and still going strong. Indeed his new film, Fellini Interview, is not even mentioned in this book, which though breathlessly trying to keep up only gets as far as Ginger and Fred. Alpert's book is thoroughly enjoyable, nonetheless. Though written without the maestro's co-operation, it did have his distant blessing and it contains telling testimony from those who have danced, briefly or frequently, through the eye of the Fellini hurricane: including Giulietta Masina, Anthony Quinn and Richard Basehart.

Less readable is Thierry de Navacelle's Woody Allen On Location. The outsider seldom believes, however much insiders may insist on it, that film-making can be an immensely tedious process. Here at last is the book which should persuade him: a stupefying diary of the shooting of Radio Days.

Navacelle seems to have no desire, or ability, to turn the bald facts of camera placements, rehearsals, technical problems, location moves into anything other than bald facts. Though Allen consented to his tagging along with the film, the director was clearly not about to deliver himself of pearls of wit or wisdom, and a pathetic leitmotif of waiting-for-the-master-to-speak threads the book. On page 169 we read that Woody "has a nice smile for me, but he seems exhausted." On page 329, "Woody wandered quite close to me today." Elsewhere Navacelle's account of events makes no leap of inspiration from flat itemisation into speculation or evocation.

Nigel Andrews

Obituary/Morton Feldman

The death of Morton Feldman on Wednesday at the age of 61 deprives American music of one of its senior composers and the world of new music of one of its most distinctive characters. Though he studied first with Wolpe and Riegger, Feldman established his individuality as a leading proponent of American experimentalism, an associate of Cage, Tudor and Brown, with strong affinities with the abstract expressionist painters. The influences of the visual arts were to persist in his music.

Though his early scores exploited all the techniques of indeterminism and graphic devices current in the 1950s and 1960s, it is probably the works he wrote in the early 1970s, when he returned to conventional musical notation, that will prove most persistent.

The delicate sound washes and general restraint of his music contrasted with the larger-than-life figure of the composer himself, who was a regular visitor to the European festival circuit. One consequence has been that Feldman's music has become more widely played and known in Britain than that of any other American composer of his generation.

A.C.

Swan Lake/Albert Hall

Andrew Clements

Chaikovsky's *Swan Lake* may be the best loved and most widely staged of all classical ballets, but much of it remains utterly unfamiliakr in the concert hall. The lollipops are frequently served up on "Chaikovsky Nights" and in programmes of "Love Clasics", but the unabridge score — all four acts of it—is stritctly confined to the theatre.

If *Swan Lake* was ever to be included in a Prom this was the year, but even this dance-inspired season was not emboldened to present the whole work in concert; instead the second half of Friday's programme, given by the London Symphony Orchestra conducted by Michael Tilson Thomas, offered one complete act, the third. Act 3 is arguably the least familiar of all; it contains none of the famous set pieces, and its balletic core is the problematic sequence of "national dances" in which Chaikovsky responds rather tepidly to the demands of creating exotic pastiche.

The point of selectiing this particular elemtn of the ballet seems abstruse, unless its very unlikeliness was seen as a virtue carrying its own reward. It offers no new insights into the composer's creative psyche or even a feast of his melodic invention — the third-act examples of the waltzes with which *Swan Lake* abounds are by no means the finest in the score — and the dramatic structure is unbalanced by the stylised nationalisms.

Tilson Thomas has long been a staunch advocate of Chaikovsky's ballets in concert, as of the composer's other disregarded orchestral works. Much of this performance had a feeling of theatrical flair, though some tempi might have caused problems for dancers; even the moments of potential embarrassment such as the "Danse espagnole," replete with castanets, were driven with a conviction that forestalled it. The LSO's playing, especially that of its woodwind, also went some way to justify the enterprise.

Earlier, Stravinsky's Symphony in Three Movements had been less convincing, lacking sinew and definition. It requires the kind of full-blooded assurance which Thomas and his orchestra displayed in the Chaikovsky; the impression was one of a safety first run-through, tidy but unremarkable.

Schools Prom concerts in November

Twelve hundred of Britain's most gifted young musicians chosen from 20,000 at nationwide auditions will take part in the 1987 Schools Prom concerts at the Royal Albert Hall on November 23, 24 and 25.

A steel band from Milton Keynes and a dixieland band from Doncaster will rub shoulders with near-professional county youth orchestras and top national choirs.

Appearing as guest artistes are the Barbican Piano trio, Mark Bebbington (piano), Eric Delany (drums), Elenid Owen (violin), and Bernard Robertson (organ).

The Schools Prom is presented by Music for Youth and sponsored by Commercial Union Assurance, Marks & Spencer, Music Industries Association, The Times Educational Supplement and WH Smith.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

September 4–10

Music

LONDON

City of Birmingham Symphony Orchestra conducted by Simon Rattle with Elisabeth Söderström, soprano. Gershwin, Canteloube, Shostakovich, Nielsen, Sibelius and Prokofiev. Royal Albert Hall (Mon). (589 8212).

Royal Philharmonic Orchestra and Brighton Festival Chorus conducted by André Previn with Nigel Kennedey, viola. Walton and Ravel. Royal Albert Hall (Tue).

BBC Symphony Orchestra conducted by Gunter Wand. Stravinsky and Schubert. Royal Albert Hall (Wed).

Vienna Philharmonic Orchestra conducted by Leonard Bernstein with Peter Schmiedl, clarinet. Mozart and Mahler. Royal Albert Hall (Thur).

NETHERLANDS

Maastricht, Festival of Religious Music. Staargebouw: Musica Antique of Cologne with the Rheinische Kantorei and soloists, conducted by Herman Max: Buxtehude, Tunder, Bernhard, Weckmann (Tue); Martinus Church: Prattica Musica with a programme of religious music from the court of Versailles (Wed); Martinus Church: The Tallis Scholars: the Spanish Renaissance School (Thur). (29 38 28).

PARIS

Ensemble Sagittarius conducted by Michel Laplenie: 17th century German sacred music – Schutz and his contemporaries (Mon, 8.30pm). Saint Severin Church.

Hommage to Nadia Boulanger, film and concert with composers, friends and pupils of Nadia Boulanger (Wed, 7pm). Concert-Rencontre at the Auditorium des Halles.

Nouvel Orchestre Philharmonique de Radio France conducted by Eleazar de Carvalho, Michel Laleouse, violin and alto: Ligeti, Philippot, Villa-Lobos (Thur, 8.30pm). Radio France, Grand Auditorium'

All the above concerts are part of the Paris Festival Estival (4804 9801).

WEST GERMANY

Berlin, Philharmonie: Philadelphia Orchestra under Riccardo Muti. Hindemith and Berlioz. (Mon and Tues); Berlin Philharmonic Orchestra, conducted by Carolo Maria Giulini, Schubert. Soloists are Barbara Hendricks, Helga Muller-Molinari, Keith Lewis, Justin Lavender, Andraas Schmidt and the Ernst-Seuff Choir. (Wed and Thurs).

NEW YORK

Merkin Hall (Goodman House): Karl Weigl Festival. Lucy Shelton soprano, Hilda Harris mezzo-soprano, New World String Quartet, George Shirley tenor, Paul Silverthorne viola. All Weigl programme (Tue). 67th w. of Broadway (362 8719).

CHICAGO

Ravinia Festival: The final week of the festival features David Schrader's recital on harpsichord, fortepiano, and organ. Scarlatti, Rameau, Mozart, Beethoven, Frescobaldi, Correa de Arauxo (Thur). Highland Park (728 4642).

Theatre

NEW YORK

Fences (46th Street): August Wilson hit a home-run, this year's Pulitzer Prize, with James Earle Jones taking the powerful lead role of an old baseball player raising a family in an industrial city in the 1950s, trying to improve lot but dogged by his own failings. (221-1211).

Cats (Winter Garden): Still a sellout, Trevor Nunn's production of T.S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6262).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like Shuffle Off To Buffalo with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2626).

I'm Not Rappaport (Booth): The Tony's best play of 1986 won on the strength of its word-of-mouth popularity for the two oldsters on Central Park benches who bicker uproariously about life past, present and future, with a funny plot to match. (239 6200).

Les Miserables (Broadway): Led by Colm Wilkinson repeating his West End role as Jean Valjean, the magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama, if not strict adherence to its original source. (239 6200).

Starlight Express (Gershwin): Those who saw the original at the Victoria in London will barely recognise its American incarnation: the skaters do not have to go round the whole theatre but do get good exercise in the spruced-up stage with new bridges and American scenery to distract from the hackneyed pop music and trumped-up silly plot. (586 6510).

Me and My Girl (Marquis): Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters; but it has proved to be a durable Broadway hit with its marvellous lead role for an agile, engaging and deft actor, preferably British. (947 0033).

TOKYO

Les Misérables. After London and New York, now Tokyo and the Japanese version of the Tony-award winning musical. The cast was handpicked by the creative team of producer Cameron Mackintosh (from an astounding 11,500 hopefuls), then trained for nine months in a special "ecole" and rehearsed by director John Caird. Costumes, set, sound, lighting have been supervised by the respective original designer flown in from London. Toho's Les Misérables is a triumph. The best production of a Western musical in Japan, it differs little from the original London version. Convincing and moving, this top-quality production shows what can be achieved with proper casting and training. Sponsored by the cosmetics company, Shiseido. Imperial Theatre, near Ginza. (201 7777).

Annie. The Japanese-version of the Tony-award winning musical by Charles Strouse and Martin Chamin. Stars Shiori Kanno as Annie with Ichiro Zaitsu, Mitsuko Jun and the shepherd dog Sandy. The Aoyama Theatre (Tue, Wed, Thur). (239 1837).

WASHINGTON

Cabaret (Opera House): Hal Prince again directs Joel Grey as the seductive master of ceremonies in a Broadway-bound revival of the evocative musical of Berlin life in the 1930s. Ends Oct. 3. Kennedy Center (254 3770).

LONDON

Antony and Cleopatra (Olivier): Peter Hall's best production for the National Theatre he leaves in 1988 brings this great but notoriously difficult play to thrilling life, with Judi Dench and Anthony Hopkins as battle scarred lovers on the brink of old age. Dench is angry, witty and ultimately moving. Best of the rest at the NT is Michael Gambon giving his finest ever performance as Arthur Miller's doomed longshoreman in A View from the Bridge; Juliet Stevenson in a fine revival of Lorca's Yerma; and David Hare's production of King Lear, Hopkins, a massive gnarled oak, which gathers force and more friends as it continues in the repertoire (928 2252).

The Phantom of the Opera (Her Majesty's): Spectacular but emotionally nutritional new musical by Andrew Lloyd Webber emphasising the romance in Leroux's 1911 novel. Happens in a wonderful Paris Opera ambience designed by Maria Bjornson. Hal Prince's alert, affectionate production contains a superb central performance by Michael Crawford. A new, meritorious and palpable hit. (839 2244, CC 379 6131/240 7200).

The Balcony (Barbican): Sadly dated and heavy-handed opening to the RSC's Genet retrospective, not helping to fight suspicions that the RSC, certainly in London, is stretched way beyond its creative capacities. Terry Hands directs, Farrah's set looks like a cheap pink brothel and the actors, a dull lot, clump around on high boots in big bulging costumes. (628 8795).

Melon (Haymarket): Alan Bates predictably good in new Simon Gray, clumsily directed by Christopher Morahan, about a jealous publisher viewed in flashback from a psychiatric ward after a breakdown. Menopausal mutterings, not vintage Gray. (930 9832).

NETHERLANDS

Amsterdam, Stadsschouwburg. The English Speaking Theatre of Amsterdam in Barrie Keeffe's trilogy Barbarians directed by David Swatling (all week except Sun and Mon). (242311).

FINANCIAL TIMES

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Monday September 7 1987

A German chief for Nato

MORE THAN 30 years after its admission to Nato, West Germany, whose conventional military contribution to the alliance is second only to the US, has proposed that a German succeed Lord Carrington next year as Nato secretary-general.

Six men have held the job, traditionally held by a European as a counterpoint to American tenure of the post of supreme Nato military commander—two Britons, two Dutchmen, one Italian and one Belgian. Other nationalities now feel it is their turn.

Norway was the first to take the unusual step of formally nominating a candidate, Mr Kaare Willoch, an ex-prime minister, and now Chancellor Helmut Kohl has nominated Mr Manfred Woerner, his Defence Minister, to fill the post next summer. There are arguments in favour of both nominations but the German case seems intrinsically stronger.

Symbolic reminder

Many West Germans, and *their allies, have long had a lurking fear that the federal republic*, frustrated by the seeming impossibility of ever achieving any measure of reunification with East Germany except by stepping outside Nato, might one day go neutral-ist-nationalist. The fear is probably greatly exaggerated. For instance, this week's historic visit to West Germany by President Erich Honecker of East Germany is only made politically possible by the current degree of popular apathy about reunification in West Germany.

Nonetheless, the Honecker visit will *at least be a symbolic* reminder of West Germany's interest in the east, if not pull towards it. It may therefore *be all the more appropriate* to anchor Bonn further in Nato by letting it fill the politically symbolic post of the secretary generalship.

Holders of the post are servants of the Nato council of national ministers, and, unlike EC Commission presidents, have very limited power of initiative.

However, managing US-European relations is a difficult job, and it is getting trickier. It places the secretary general in mid-Atlantic, where, as Lord Carrington is fond of saying, it is cold, wet and rather lonely. It puts a premium on quiet diplomacy, *something for which* Mr Woerner, who nearly lost his current job three years ago over his messy dismissal of a senior German general at Nato, has not yet developed a reputation.

But the important issue of personalities aside, the general case for a German to fill Nato's top political post at this critical juncture in the alliance's history deserves to be stated. First, many Germans, including Mr Woerner, feel rather railroaded by Nato allies into accepting the "double zero" elimination of shorter-to-medium range nuclear missiles and abandonment of West Germany's own Pershing 1-A missiles as the basis for a US-Soviet treaty. A German secretary general could help carry West Germany through the difficult implementation of such a treaty.

Second, West Germany effectively makes the biggest European contribution to Nato by providing the largest number of conventional forces in central Europe, playing host to the forces of six allies (with all the attendant damage and noise that their manoeuvres cause), and being the only European member (along with the US) to give regular military aid to poorer southern flank countries like Turkey.

A German secretary general would be particularly well placed to argue, against growing American criticism, that the Europeans are shouldering a fair share of the alliance burden.

Third, West Germany has a major role to play in the shaping of what is loosely being called "a European defence identity" within Nato.

Having a German running the political side of the alliance in Brussels would not tempt France back into the integrated military structure of Nato. Probably *not even having a* European, as opposed to American. Nato supreme military commander—as suggested by Henry Kissinger a couple of years ago—would achieve that. But there is a new entente militaire these days between Paris and Bonn. Mr Kohl's proposal this summer for a joint Franco-German brigade will probably not materialise. But the French did not reject it out of hand, and the two countries are to hold their biggest ever joint army manoeuvres later this month. A German successor to Lord Carrington could help further encourage French participation in the military organisation of the Alliance.

Broadcasting tests ahead

THE vulgar criticism of Thatcherite policy is that it is obsessed by competition and market forces. The true criticism is that the Government either does not understand what market-based policies are or chooses to ignore them when cherished interests are at stake.

The broadcasting White Paper to be published this autumn will determine whether broadcasting will join the notorious examples, such as housing and trade policy, where this criticism most forcefully applies. There are some distinctly unpromising omens.

The question is not whether deregulation will come, but in what form. Instead of fighting a losing battle against "commercial interests" broadcasters should concentrate on how minority and quality programmes can be preserved and enhance din the new environment.

Advertising finance

There are two categories of programme involved. There may be some drama, arts or current affairs programmes which could not pay their way in the purest market imaginable. For this reason the Peacock Committee suggested a Public Service Broadcasting Council—or Arts Council of the Air—which could support programmes from any source or on any channel. The existing Arts Council has its problems. But it is a good deal better than nothing. So would be an Arts Council of the Air, which could experiment with different methods.

The second category of programme, which is far less *frequently* mentioned, is that which viewers would be prepared to finance under a pay-TV system, but which might not be profitable under an advertising-financed system.

The Home Office consultants, led by Mr Charles Jonscher, did not believe that consumer subscription could replace the licence fee for either of the BBC's two *main channels*. But they did recommend that the unused early morning hours on BBC2 and Channel 4 should be used for transcribing scrambled programmes onto videocassette recorders which viewers who paid for them could see at leisure.

Secondly, Jonscher suggested that some late evening and weekend transmissions by BBC 2 should also be scrambled. The background is that the BBC does not have the resources to fill its second channel with high-quality material without a direct audience contribution.

Thirdly, and technically most important, Jonscher advocated a common standard and payments system, whereby viewers could *have one* addressable decoder for all pay channels, whether satellite, cable or terrestrial.

It is the fourth Jonscher suggestion which tests the Government's concern for competitive markets. He showed *that one, two or three additional* terrestrial channels could be possible fairly soon, which could be pay-TV financed without the expense of cabling all households or setting up Direct Broadcasting by Satellite.

Every effort was made by officials to prevent Jonscher raising this subject and it is still being treated as out of bounds. This is because government departments feel committed to the British direct satellite venture, British Satellite Broadcasting (BSB), even though the only—and regrettable—commitment is for a temporary monopoly of DBS services.

Industrial strategy

It would be quite wrong if official attachment to a particular business venture blocked off alternative and potentially cheaper approaches. That would smack of the discredited industrial strategy of "picking winners." If followed, it would not augur well for Lord Young's tenure of the DTI.

Independence for Channel 4, now anachronistically owned by the regulatory Independent Broadcasting Authority, would bring a marginal increase of competition. As former chairman Edmund Dell has shown, it could free the channel to seek its own advertising revenue, *while safeguarding its* remit to provide complementary and minority viewing. It is ironic that those who complain most about political interference are most afraid of independence when the prospect appears.

The North Sea is past its peak but the oilmen are still busy, says **Lucy Kellaway**. The first of two articles

Life goes on past Forties

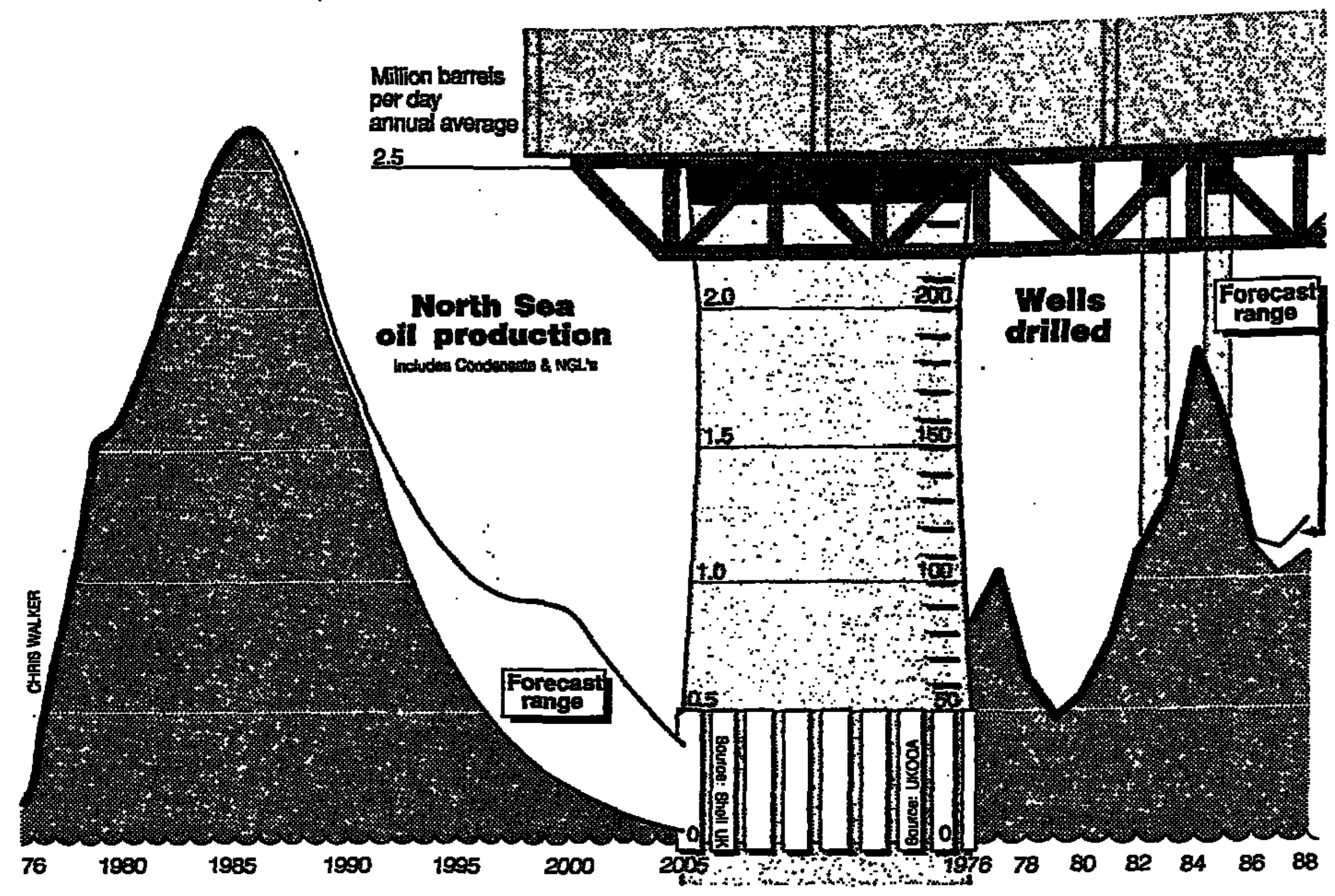
MORE OIL has been discovered in the North Sea in the first eight months of *this* year *than* in almost any year since 1975. The oil price has doubled, several new developments have been announced, unemployed rigs are restarting production and extra reserves are being found in many of the big fields.

For an industry that is officially past its prime, that is not bad going. But there is no escaping the fact that after a decade of advance, North Sea oil production is firmly in *decline. This summer it fell* below 2m barrels a day for the first time since 1982 and, in spite of the subsequent recovery, it will never again reach its 1985 peak of 2.6m barrels a day.

Decline is inevitable, even though the North Sea may still contain more than the 7.3bn barrels of oil extracted so far. The four biggest fields, Forties, Brent, Ninian and Piper — which together account for about half of total production — are all past their peak, and the fields which will replace them are getting smaller and smaller. Indeed, the typical recent discovery is about a 20th of the size of Forties, the largest of them all with total reserves of 2.3bn barrels.

Yet the North Sea appears to be edging towards old age with more gusto than grace. After a cruel introduction to middle age last year, when its first experience of falling production coincided with a price crash, the last few months have demonstrated how attractive a mature oil region can be.

News of perhaps the most exciting discovery for a decade came at the end of last month as Kerr McGee, the Oklahoma group, struck oil 200 miles off the coast of Aberdeen, in a structure which could contain more than 350m barrels.



medium-sized fields remain.

Even though some doubt the profitability of the Kerr McGee find and Chevron's similar Alba discovery, as the oil in each is sticky, continued interest in the North Sea—which holds just 2 *per cent of the world's* reserves—is justified. The chances of making a commercial discovery—about one in 30 —are good, the political regime stable, and the tax system (notwithstanding inevitable industry complaints) fair.

By comparison, the Norwegian side still contains vast areas waiting to be explored. But it is regarded by most international oil companies as less alluring than the UK swathe because of a more onerous tax system and a more interventionist government.

"The UK sector of the North Sea is one of the most attractive places in the world for the oil industry to be. Even though it is a mature province, there is a lot of exploration potential," says Mr Keith Taylor, head of exploration and production at Esso UK.

But the size of that potential is anyone's guess. At worst, the North Sea is more than half spent. At best, more than three times as much as has already

The UK sector of the North Sea is one of the most attractive places in the world for the oil industry

Meanwhile, a host of oil companies, most of them European and American, are clamouring for North Sea acreage. About ten of them, wanting access for the first time, are among a large group bidding for the UK interests of North Sea and General, one of the few bundles of assets up for sale.

However, to reconstruct these scattered signs into a picture showing a bright new era would be misleading. There are two distinct aspects to the flow of good news this year. *The first is a simple resumption* of activity caused by the recovery in the oil price. Indeed, the two largest developments being pushed forward by their partners—the Miller and Kittiwake fields—would have been on the way towards production by now if plans had not been turned inside out by the fall in price. Similarly, the pick-up in exploration is from a low base and is still well below its peak of three years ago.

The other strand is more encouraging. Recent discoveries by Kerr McGee, Chevron, Arco, Amerada Hess and others, as well as the recent doubling of remaining reserves in the Forties field, demonstrate that even with oil at $18 (£11) a barrel, the North Sea is not played out. While the discoveries are insufficient to transform the underlying position—recent additions have at most contributed a year's oil production to total reserves—they at least show that some

been produced remains. According to the Department of Energy's "Brown Book," the statistical bible, oil in existing discoveries could be anywhere *between* 5.3bn and 15.4bn barrels, while the range for unfound reserves is even wider.

On the Brown Book's most pessimistic assumptions, oil explorers might as well hang up their hard hats rather than comb the area for a mere 2.3bn barrels. *On the other* hand, there could be as much as 18bn barrels—equal to 30 years of consumption—waiting to be found.

How much oil is located will depend on its price. According to Mr Malcolm Ford, managing director of Britoil, *this will* need to rise to $25 a barrel before exploration really picks up. Prices of $30 or more may be needed to explore areas where big finds are likely: west of the Shetlands and in the Rockall Trough, where the waters are deep and the oil likely to be heavy and sticky. For example, BP's Claire field, north-west of the Shetlands, could be even larger than Forties, but the tar-like consistency makes it uneconomic at present.

As well as determining whether the UK will still be in the big league of producers next century, the oil price will also dictate the speed at which extraction declines. It will affect the haste with which existing fields are abandoned and set the pace for tapping new fields.

Most of the big fields have proved much more productive than initially expected, partly because years of high oil prices have encouraged the industry to invest in techniques like injecting gas or water into the reservoirs to increase production. In the early days, it was assumed that only a third of the oil could be *extracted from most fields*, recovery of 40 per cent or more is now commonplace.

However, at low oil prices the *incentive to recover every last* drop of oil is greatly diminished. According to the UK Offshore Operators Association, at $15 a barrel *half the* existing fields will have reached their economic limit by the mid-1990s, while every $5 *fall in the* oil price shortens a field's life by between 1.5 and 2 years.

At present prices companies have plenty of incentive to produce as much as possible from existing fields, especially as the expensive prospect of abandonment looms. Although the Government has still not clarified its plans for abandoning the North Sea's towering oil structures, the aggregate cost could be as high as £6bn.

According to Mr Martin Lovegrove of James Capel as much as 60 per cent of the oil from some of the larger fields could be recovered, implying that the North Sea will be producing more than 100m tonnes a year by the beginning of the next decade, only 20 per cent less than present levels.

What happens thereafter depends on whether companies continue to push ahead with development plans. The evidence of the last few months is encouraging. Even though oil *prices at $18 a barrel* are about half as high as expected when current development options were first aired several years ago, *the industry has* responded by slashing its costs. Thus most of the original development candidates will probably be developed anyway, perhaps a

There could be as much as 18bn barrels —equal to 30 years of consumption— waiting to be found

few years later than originally expected.

According to an industry survey carried out by the Grampian Regional Council, 35 oil fields are likely to be developed in the next 10 years, only three fewer than it was forecasting two years ago, before the oil price collapsed.

With the promise of rising oil prices removed, the industry has for the first time made cost-cutting a priority. The savings have a major effect on project economics, as they are felt at once. The 30 per cent cost reductions achieved for the two largest developments, Kittiwake and Miller, have transformed unattractive projects into respectable money-makers.

The savings have been achieved in three ways. All the extravagant "gold plating" of the old days has gone ("these days we run our projects with a hand of iron," says Mr Ford of Britoil), technological advances have made platforms lighter and cheaper, while the absence of work in the supply industry (where some 14,000 jobs have been lost since the price fell) has meant more competitive bidding for work.

Even though the offshore supplies industry is looking a little stronger as a result of the pick-up in activity, and most of the cutting and squeezing has already happened, the industry is still operating at about two-thirds of capacity.

In offshore drilling, where the recession has been worst, rigs are being hired on daily rates of about $14,000, about half the price of two years ago, although well above the $10,000 being paid during the darkest part of last year.

As the wave of new developments translates into firm orders, oil companies may suddenly find it more difficult to contain costs, because offshore suppliers may increase prices to a level where they are making a respectable return.

Despite this, and the fact that the most obvious savings have already been made, further reductions may be possible. According to Mr Taylor of Esso, there is still room for further cuts of about 20 per cent, which, if achieved, will bring a new wave of developments into play.

At the same time as adjusting to lower oil prices, the industry has been going through an equally fundamental acclimatisation to the age of the small oil field. In the early 1970s the average discovery contained 300m barrels of oil, whereas most of the new fields being discovered contain well under 100m barrels, and the average is continuing to fall. These days a discovery of less than 50m barrels is not to be sneezed at, while a field on the scale of the Kerr McGee discovery is regarded as an exception.

The cost of producing oil from these little fields — of which more than 100 have already been found—need not be prohibitive. Both the tax system, which is designed to encourage such developments, and the fact that much of the equipment needed to develop them is already in place, means that they can be highly profitable. In most cases these fields pay no royalty or petroleum revenue tax. Those which can be developed sub-sea and tied into existing pipelines can make returns of 50 per cent or more.

In the North Sea of the future there may be three times as many producing fields as at present — perhaps a hundred or more. The seascape will look strangely empty. Under the sea, scores of small fields will be tied into existing pipeline systems, each producing oil in modest volumes.

There are huge uncertainties. The swing from deepest pessimism last year to guarded optimism shows how dependent the industry is, not only on the oil price, but also on technological ingenuity, and on sheer luck.

Tomorrow, Max Wilkinson looks at the macroeconomic implications.

Men and Matters

Washington, Sept. 6

Men and their women who matter

As befits the most exclusive gathering in town, the Denis Thatcher club is not listed in the Washington telephone directory.

It was established in honour of those husbands who find themselves upstaged by their illustrious partners. Not surprisingly, the male members like to remain discreet.

Dr Chester E. Finn Jr, assistant secretary for educational research and improvement as the US Department of Education, appears a little too senior to merit a place in the club—until one hears about his Indian-born wife, Renu Virmani, a Lt Col in the US Army and director of cardio-vascular pathology at the Walter Reed Army hospital in DC.

Dr Finn was not available to speak about life in the shade. But his secretary kindly directed inquiries to one of the Club's associate members, Charles Horner of the United States information agency, whose wife, Constance, is director of the office of personnel management, and a member of two presidential commissions.

Horner, like the president and most of the US Congress was still on vacation, so one is left to guess at other members. My hot tip: Republican presidential contender Senator Robert Dole whose wife, Elizabeth, is the US transportation secretary and currently charged with the toughest job in the US Government—making the planes fly on time.

Barry's fight

Washington without mayor Marion Barry would be like London without Big Ben.

But in the dog days of August, when the temperatures hit the late 90s with rising humidity to match, it was time to think the unthinkable as mayor Barry's star came down with a crash.

Barry — the son of a Mississippi sharecropper — has dominated local politics in the District of Columbia for nine years. He is a big man, built like a boxer, who at 51 still radiates a handsome confidence.

His years in the civil rights movement made him a hero in Washington's black community (which, it is often forgotten, makes up the clear majority of the city's population).

Now that very support is crumbling under the corruption which has seen 11 convictions of city officials including two deputy mayors. Barry is caught up in several grand jury investigations into fraud, corruption, and bribery in and *around the DC government.*

The mayor labels the inquiries "Mickey Mouse" efforts and castigates the local papers—the Washington Post and the Washington Times—both of whom he rightly accuses of being out to sink him.

"The only way I would get out of this office is to be carried out," said the mayor last week, words which could easily have been uttered by the Louisiana demagogue, Huey Long.

This is no place to take sides. But in defence of the mayor it should be said that the clean streets of Washington put London to shame, and the parking wardens must rank as the most ruthlessly efficient in the western hemisphere.

Air space

Getting in and out of Washington by plane is no traveller's delight.

You either take a 45-minute drive into the wilds of Virginia to Dulles Airport, or you face the steamy summer mayhem of National Airport by the Potomac river.

The up-and-coming competitor is a third airport unflatteringly known as BWI, or Baltimore-Washington, which is no further than Dulles and a good deal more spacious, with easy parking and uncrowded terminals.

It could be the East Coast's secret weapon for beating the crush.

Sharing

Once in Washington, one of the joys is riding the Metro.

Air-conditioned and spotlessly clean, it does not "buck" like *its sisters in New York and* Chicago.

The big problem is the passengers. The other day your correspondent was reading a particularly informative front-page article in the New York Times about women and AIDS.

A well-groomed woman moved closer and peered over the newspaper. Soon the intrusion became intolerable and your reporter *quickly turned* the page.

"Excuse me," she said, "I haven't finished the article. Don't turn the page, yet."

Such is communal life in the nation's capital.

Tribal warfare

This is the week that Washington springs back to life.

The President is back from his California ranch, the Congress reconvenes and the city can resume its favourite activity of chewing the political cud, pontificating about who is up and down on Capitol Hill.

When its collective thoughts stray from politics it will be to pray that 1988 will see the Washington Redskins football team back in the Superbowl world championship final.

Last year a scratchy team did well to beat the Chicago Bears —but were then whopped in a howling gale by the eventual champions, the New York Giants.

This year, the team has suffered a series of distractions. First, there was the correspondence in the Washington Post, with readers complaining about the "outdated and racist" team name.

One reader stormed that it was not good enough to water down the team's fighting song, or invite a Native American (translation: a Red Indian) to sing the national anthem before the start of a game.

After that crisis of identity, the team was thrown further into turmoil by its owner, Jack Kent Cooke, aged 74, whose real estate fortune can only be measured in telephone numbers.

He has suggested that his team should move to bigger premises—to wit, a dome stadium which could house 75,000 spectators, some 20,000 more than its present abode at RFK stadium.

Now it is true that the present RFK lease runs out in 1990. But the question remains who should pay for the super-dome?

Cooke naturally thinks the Washington authorities should grab the chance. The public, who can sniff a millionaire at 50 yards, think he should cough up.

All this while the poor team thinks about re-adjusting to the inevitable astro-turf of a covered stadium, far away from *the lush grass of RFK, one of* the few natural football arenas left in the land.

Has Casey told?

In Washington the most *eagerly-awaited book of the* month is Washington Post reporter Bob Woodward's opus on the CIA under William Casey, who died earlier this year.

The initial print run is a staggering 500,000, and the title of the book remains top secret.

Woodward, who made his name exposing the Watergate *scandal, is coy about the con*tent. "People say Casey's secrets died with him," he told an interviewer. "Well maybe they didn't."

This book should put the loosely-researched Spycatcher in its place.

Observer

THE US ECONOMY

LAST FRIDAY was only the beginning. With his decision to raise the Federal Reserve Board's discount rate from 5.5 to 6 per cent, Dr Alan Greenspan, the Fed's new chairman, has not merely made a long-awaited move to put his mark on economic policy and bolster the falling dollar. He has also effectively confirmed the market's instinctive feeling that the US economy has passed the low point in a decade-long cycle of interest rates and inflation.

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He may thus have ushered in an era of steadily increasing borrowing costs that is unlikely to end until the next recession, not expected until 1989 or 1990.

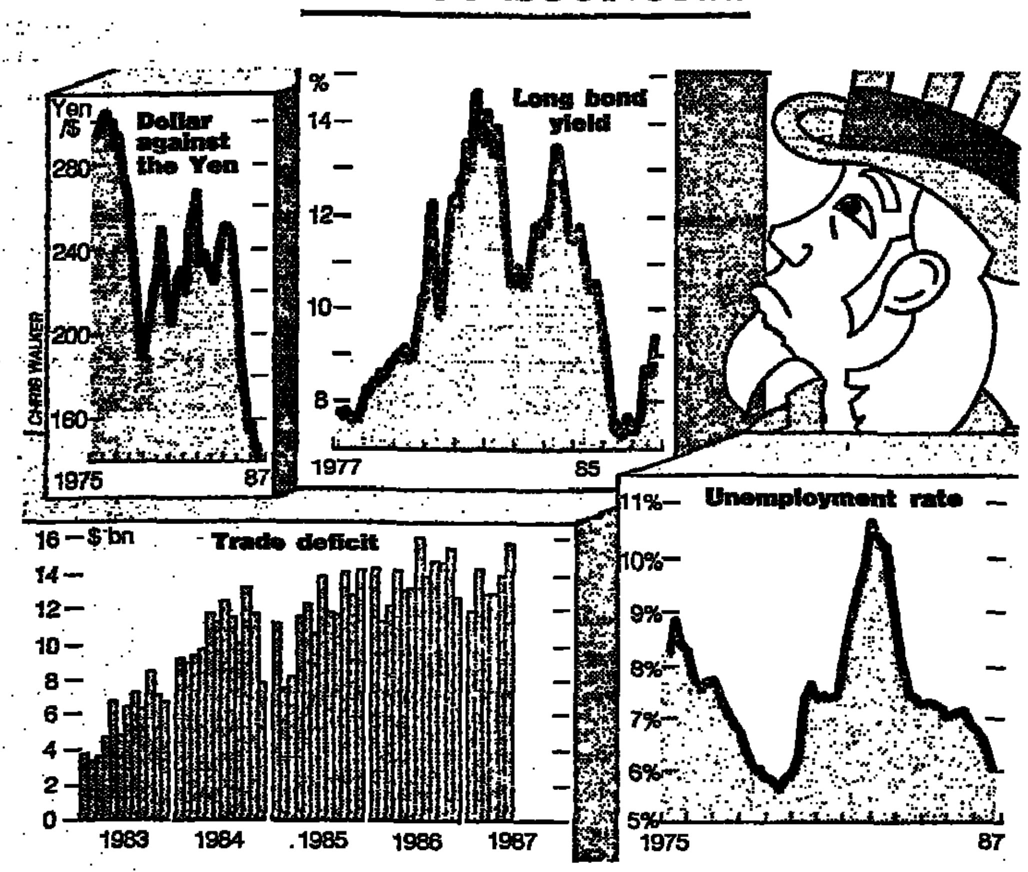
Whether such a dramatic interpretation of last week's events proves right will depend on the behaviour in the next few months of three economic indicators—the dollar, inflation and economic growth. The short-term market focus will be on the dollar—especially this week, as the financial world awaits with trepidation the release of US trade figures on Friday. These are expected to show a deficit of around $16bn, worse even than the record figure of $15.7bn which unleashed last month's run on the dollar.

But in reality the trade figures for this month or next, however bad or good they might be, are probably only marginally relevant to the course of US interest rates and Fed policy in the next year or so.

Most economists still believe that the monthly deficits will fall back after the summer into the $11bn to $13bn range, where they had stabilised before June. Forecasts for 1988 generally suggest a further decline to around $10bn a month.

But even these "favourable projections" will leave the US dependent on foreign capital inflows of $100bn a year or more until the middle of the next decade. That guarantees that the dollar will remain vulnerable to any switch in foreign sentiment or setback in domestic policy. It also suggests that the much-vaunted restructuring of US industry and the downward adjustment of Americans' relative wages will have to go still further to compensate for the country's loss of competitiveness in the early 1980s, given that the US has also failed to persuade its trading partners to pursue full-employment policies since then.

Dr Greenspan had made it clear before he joined the Fed that he shares the long-run view that the dollar is overvalued. His studied silence during the chaos in the foreign exchanges in the past two weeks, along with the noticeable lack of any mention of the dollar in the Fed's statement about the discount rate on Friday, suggest that he may still hold that view.



Inflationary fears revisited

By Anatole Kaletsky in New York

A reasonable conclusion might therefore be that the Fed's concern about the falling dollar is focused less on the Louvre agreement to stabilise exchange rates as an end in itself, and more on the potential impact of a depreciating currency on US inflation.

What Dr Greenspan is probably trying to do is neutralise this domestic inflationary effect as far as possible by monetary means. If this could be achieved, then the slide in the dollar itself need not be worrying and could even be welcome.

Monthly inflation figures this year have averaged an annual rate of just under 5 per cent, in contrast to the 1.1 per cent achieved last year. Most of the difference, however, has been due to the switchback in energy costs and, to a smaller extent, in food and other commodity prices. The underlying inflation rate, excluding energy and food costs, has accelerated by less than one percentage point from last year's comparable figure of 3.4 per cent. Commodity prices were bound to strengthen some time from the depressed levels of the mid-1980s. Meanwhile money supply numbers have been running consistently below the Fed's "monitoring ranges" for the first time in five years.

Taking all these factors together, the 51 leading econometric services surveyed last week by Blue Chip Economic Services came up with an average inflation forecast of 3.8 per cent in 1987 and 4.6 per cent in 1988. Even the most pessimistic of these forecasters expect no more than 4½ per cent inflation this year and 5½ per cent next.

Why then are Dr Greenspan and the bond market apparently so worried?

The answer lies in the present rates of growth and unemployment in the US economy —and even more importantly in how those rates might be affected by further dollar declines.

The problem is not that the US economy is overheating. Although there has been a healthy pickup in industrial production since the spring, this has come after nearly 12 months of very sluggish growth in manufacturing and sharp declines in the extractive industries following the collapse of oil prices. GNP growth has accelerated slightly, but only in comparison with last year's doldrums. Neither the second quarter's GNP growth of 2.3 per cent, nor the 2.5 per cent rate expected for 1987 as a whole by the Blue Chip forecasters nor the 2.9 per cent they foresee next year looks much like overheating. Over the past 12 months, in fact, the US economy has been teetering on a knife edge between inflation and recession—mostly leaning to the latter as corporations have cut back borrowing and investment and consumer debt has climbed to unsustainable levels.

In a normal business cycle, the economy might already have been heading clearly downwards after the second-longest continuous expansion in history. The danger of a serious slump would have been further aggravated by the instabilities built into the financial structure and by the size of a federal budget deficit which will make it difficult to use expansionary fiscal policy to pull the economy out of the next recession.

By factoring in the falling dollar, however, it is possible to present a picture where over-expansion, rather than recession, is the greater threat.

So far the decline in the dollar has stimulated export industries just sufficiently to overcome recessionary forces building up in the economy. A still lower dollar will tend to stimulate a faster turnaround in the US trade balance, which in itself would be welcome.

But to produce more exports and substitute for imports, the country would need to devote more of its resources to the production of manufactures and other tradeable goods. If the US economy had plenty of spare industrial capacity and large pools of unemployment, finding these resources would be no problem. But if the economy is already operating almost at full throttle, any improvement in the trade deficit will require resources to be pulled out of the non-tradeable service industries which have been the chief beneficiaries of the early years of Reaganomics.

Industry's capacity utilisation figures, for what they are worth after 10 years of unprecedented instability and restructuring, are now around the 80 to 81 per cent mark—the same level as in 1984, the last time the Fed shifted its foot gently from the throttle to the brake, raising the discount rate temporarily from 8.5 to 9 per cent.

But unemployment is the indicator that Dr Greenspan is likely to be watching most closely. With civilian unemployment running at 6 per cent—the lowest figure this decade—there is no doubt that his greatest fear is wage inflation. This tends to accelerate in the US whenever unemployment falls below what is described as a "natural rate" variously estimated at between 5 and 6 per cent. The geographical uneveness of the unemployment trends exacerbates the danger. Unemployment is only 3 per cent in Massachusetts and 4.5 per cent in New York state—levels not seen since the early 1970s.

Nevertheless, to start raising interest rates when national unemployment is only just entering the 6 per cent range might seem excessively cautious. But this again is where the dollar and the trade deficits come in.

Suppose the dollar and the US trade deficit were to fall rather more quickly than suggested by current projections Employment would start to grow rapidly, pushing in into the danger zone where inflationary pay increase began to threaten. If the resources are not reallocated by fiscal or monetary means, they will be shifted in a cruder way—by inflation bidding up wages and the prices of other industrial inputs. Therein lies the danger of any sharp devaluation.

Unfortunately, there is an equal and opposite danger if the Fed should tighten too abruptly. The stimulus provided by a lower dollar could turn out to be smaller or less lasting than expected—because too many US exporters have been put out of business already or because demand contracts in other countries as a result of their currencies rising. A tightening of monetary policy could then tip domestic US demand into recession without a compensating boost from foreign trade.

At present few economists are worried by this danger. The general expectation is that the next recession will not begin until sometime in 1989. Until then, the falling dollar will go on boosting exports and corporate profits. This will keep up the heady rise of stock prices on Wall Street and help to maintain the atmosphere of financial euphoria that is inspiring American consumers to spend and borrow beyond all previous records.

If this analysis is right, a pre-emptive touch on the brake from Dr Greenspan will not come amiss. But if it is wrong and the economy is already weakening, a rising trend in interest rates could yet tip the US into a premature recession.

This, of course, is an outcome which Dr Greenspan will seek to avoid at all costs, particularly just before a Presidential election. Yet a recession in an election year is precisely what Mr Paul Volcker engineered in 1980, after he hoisted the discount rate in 1979 to defend the dollar. The situation may not be anything like as precarious today. But the record shows that few economists or even Federal Reserve Chairmen have been much good at predicting recessions.

A fresh approach to holidays

The case for house-swapping

By Malcolm Rutherford

THERE IS a way for someone to make some money while performin ga service to a lot of people and also helping to solve a efamily holiday problem. It 's called house-swapping.

Of course, it exists already, though mostly on an informal basis. All yo uneed are two families of broadly compatible size and interests who want to swap houses for the holidays. It includes a car swap; the car is left behind outside the house or at the airport for the swappee to pick up. The only cost, apart from normal living expenses, is the airfare.

Some agencies circulate lists

More people could do this if they thought about it, and without any call for an intermediary to bring them together. It is also possible to do it by placing an advertisement in the personal columns of a newspaper: "English family of four seeks house exchange in August." But it must be quite hard to know which medium to choose, especially if you are seeking a swappee in, say, Tennessee.

Americans have the same problem the other way round. They have very little idea how to reach the European market. Besides, it is difficult to know how to describe yourself, and your requirements, without going to exorbitant and possibly off-putting lineage. Do you make it a pre-condition, for example, that the swappe must on all accounts agree to look after the cat in the style to which it is accustomed?

Some agencies already circulate lists. If so, they are not very wel-known and there is plenty of room for others to come in, for this should be one of the growth service sectors of the future.

It would be possible to start by being very ambitious: "House-swaps worldwide" or "Exotic house-swaps." But it might be better to go for a more modest, regional approach at the beginning. Others will have their own preferences, but I would suggest a tie-up between London and the American south as an untapped market.

There are several reasons why such a venture, properly handled, seems bound to succeed. The southern states of the US have still not been fully rediscovered by the British. Yet there is, by now, plenty of history. St Augustine in Florida is quite as interesting as some obscure parts of Italy. Savannah, Georgia, reveals a lot about 18th-century England.

At the same time, American southerners are still breaking out from the past. A surprising number of them have hardly ever been to the north, let alone to Europe. It is Europe they want to go to, and especially England.

Nothing against Scotland here. They regard Edinburgh as within easy reach once they are in London as, by American standards, it is. So, incidentally, is Paris for the odd weekend, not to speak of Dublin or Cork. But it is London, with its theatres and cultural attractions, that is the centre.

Americans also undersell themselves

The problem for many of these Americans is that they do not know how to arrange the exchange. An agency set up to put them in touch with potential London house-swappees would be into very good business by charging a small commission.

The Americans also undersell themselves. "You're the second English family that's been through," said the sales lady in a shop in a small town in South Carolina. "You mean today?" we asked. "No," she remembered. "The other one was in April." Yet this was in one of the most beautiful parts of the world that one could wish to see.

The only harsh words we ever heard in the south were from Bostonians complaining at the southerners' slowness. Thus one can see why the south prefers Europe and why Europeans might prefer the south if they knew more about it.

As it happened, our house swap wa sdone without an intermediary. But the business is there for the taking.

Letters to the Editor

A strategy for electricity

From Mr A. Sykes and Professor C. Robinson

Sir, — The timing of Mr Lyons' latest letter (September 1) is unfortunate for him. He assures us that private generators could not better the performance of the present system. That statement will seem surprising to many people until they turn to page 8 of the same issue where it is reported that Mr Lyons' union is making clear to government that it would not permit private power station owners to reduce manning levels below those now established. There could hardly be a clearer admission, from those who know, that private operators could reduce the industry's costs. They should be allowed to do so in the interests of energy consumers.

Mr Lyons is also inconsistent. According to him, no one has produced any "empirical evidence" on the superiority of competitive generation of electricity. How could they do so since, as Mr Lyons explains, nowhere in the world is there "effective competition" in power generation? There are, in fact, firm foundations in the work of economists (both theoretical and applied for the view that injecting competition into monopolies is beneficial. Such benefits are especially likely when the monopoly concerned has for over 40 years suffered state interference and has been used to support the British coal industry and British plant manufacturers. Competition in generation would reduce costs, pass those reductions on to consumers, reduce the politicisation of decision-making and allow competitors to set real performance standards for managers in place of standards imposed by civil servants.

An argument advanced by Mr Lyons in earlier letters and articles—that the "merit order" already maximises efficiency—is quite incorrect. The merit order merely minimises, for the CEGB system as a whole, operating costs which have already been determined by the investment decisions of a monopoly and by the manning and operational practices of unions in that monopoly. No doubt present employees of the industry believe they are already operating at high efficiency. But they are victims of an operating environment, set for them by government, which shields them from competitive pressures.

There is a considerable opportunity in the forthcoming electricity privatisation to change the structure of a key industry so as to benefit energy consumers and indeed the British economy as a whole. The opportunity can be seized only if competition is introduced into the industry. Another British Gas style privatisation, whether induced by the desire for speed or to raise maximum revenues or by the fear of union action, would be useless. The Government might as well leave the industry as it is and leave the task of liberalising electricity supply to a successor.

Allen Sykes.
(Professor) Colin Robinson.
c/o University of Surrey, Guildford.

Tighter gun controls

From Mr F. Wickham

Sir,—Mr D. Sawers (September 3) asserts that "Parliament will have to decide whether the protection of the individual from violent death is compatible with the private ownership of guns. Sporting weapons cannot be excluded from such a decision when they are so popular with the criminal." He does not say how many murders are committed, or criminals armed, with .22 rifles or pistols (fewer, I am sure, than with kitchen knives), but he has no hesitation in seeking to end the sport of target shooting with these weapons and, presumably, this country's participation in international competitions. Does he also think that private ownership of motor vehicles should be banned to protect the individual from violent death and deny their use to criminals?

F. V. Wickham.
29, Anselm Road, Pinner, Middlesex.

Cartels and munitions

From Mr V. Korah

Sir,—I am surprised that an official from the European Community (August 28) should have said that a cartel between undertakings relating to munitions and war materials is not subject to the EEC rules of competition. Article 223 of the EEC Treaty provides that: "Any member state may take such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material..."

The cartel does not seem to have been a state measure. It is widely believed that Article 223 excludes the armaments industry from the EEC Treaty, but its words are far more limited. Since undertakings from several member states are said to have joined the cartel the Commission of the European Communities, acting in collaboration with the Swedish authorities in pursuance of the Free Trade Agreement, would seem to be the most appropriate body to investigate it. It has powers both to investigate and impose fines.

Valentine Korah.
University College London, Bentham House, Endsleigh Gardens, WC1.

Accidents at work

From the National Health and Safety Officer, General, Municipal, Boilermakers and Allied Trades Union

Sir,—It is a sad reflection of the times when our proposals to deal with the unprecedented rise in accidents at work, which we see as merely restoring "basic standards of security and dignity for workers and the public," can be described as "hopelessly ambitious," in your report (August 29) on health and safety on the shopfloor.

Although the Conservative government, which engineered this return to Victorian standards of labour conservation, appears reluctant to act even when heralds of free enterprise create mayhem, we feel that our proposals for stronger laws and heavier penalties will soon command sufficient support to be enacted.

Our recent report on the UK chemical industry predicts that the major disaster required to jolt the government into action, is just around the corner; the 1986 accident figures will be worse than those for 1983 that you reported; large, responsible employers are increasingly concerned about cost under-cutting by their less scrupulous competitors who spend little on risk control; small employers need the co-operative provision of line management training, technical expertise and solutions to their hazard problems that many of them are now asking for, and which our proposed work environment fund can provide; the collective co-operation of employees is being re-discovered as an essential part of risk management; providing new legitimacy for union safety representatives; insurance companies are increasingly concerned about compensa'ion claims for the 10,000-20,000 occupational disease deaths every year; and television documentaries will soon fuel the public's anger over the insultingly low price of lives and limbs lost at work today.

The contrast between prison sentences for the desperate unemployed who steal loaves from supermarkets, and maximum fines of £2,000 on chemical companies that kill, maim and hospitalise dozens with their explosions or toxic releases that additionally cause hundreds to be evacuated from their homes, should evoke outrage from most people and politicians—if we can only get the message home to them.

David Gee.
Thorne House, Ruxley Ridge, Claygate, Esher, Surrey.

This quaint concession

From Mr J. Griffith

Sir,—Ralph Atkins (September 1) lists a number of factors behind the runaway rise in house-values in the last 16 years, and correctly draws some inferences about the dangers threatening the whole stability, social and economic, of our community.

He fails however to touch one obvious exposed nerve in this area of the body politic: the arbitrary exemption from CGT of increases in the value of one's "principal residence." I am among those who have benefitted to a modest extent from this quaint concession, for which I have never come across a rational justification on ethical or financial grounds, nor can I think of any. Yet its pernicious effects are plain for all to see: the younger mortgage themselves up to the hilt and beyond to acquire a costly home, because the higher-priced ones are found to have appreciated faster and made a bigger tax-free gain when the time comes to sell; the elderly often stay on in houses bigger than they need (when a small flat would often suit them better) for a similar reason. Others again acquire properties as a "hedge against inflation," which not infrequently, in cases near where I live, remain unoccupied for months on end. These and other related considerations have combined to create an ever more acute shortage of housing, especially in "desirable areas" (eg, within 50-80 miles of London) and lifted prices to absurd levels. By contrast virtuous citizens elsewhere cannot move into this area of sham prosperity because houses in their part of the world do not command a comparable price in a sale. This has affected job-mobility and contributed in no small measure to the present divisions within our society.

The solution to this very real problem is too simple: repeal the clause in the financial legislation which grants this socially damagi ı; exemption, and the cure will follow quicker than even the most optimistic may dare to hope. It will follow more slowly, ı

John G. Griffith.
Jesus College, Oxford

FINANCIAL TIMES

Monday September 7 1987

Gordon Cramb on Wall Street

Gearing up for Labor Day ritual

LABOR DAY is being treated with special significance this year by workers at General Motors. It marks the 50th anniversary of the Flint sit-down, the strike which led to GM's recognition of the United Auto Workers and the signing of its first negotiated labour contract.

The UAW's grand marshals, while spending this long weekend re-dedicating union halls and unveiling a monument to *the stoppage, have some other* business to attend to. This has many elements of ritual, but is *by no means ceremonial: the* current wage bargaining round is under way, with meetings continuing at Ford, *which* the union has made its focus this time round.

Ford is healthier *financially* than GM, the battered industry leader, and fears are being raised in Detroit and on Wall Street that GM is ill able to afford an industry settlement *anchored to Ford.*

The UAW says such comments are part of a recurrent management line, as is GM's insistence that it should be viewed in the talks as a special case because of the company's vertical *integration, which provides thousands* more in-house jobs making components than the other big two, Ford and Chrysler.

This was the strategy which gave GM its early post-war strength. Later a more competi*tive sourcing of parts, from lower*-cost component producers in Asia and elsewhere, helped give its rivals a widening edge.

While the company will be making this point repeatedly in the labour talks, it is also seek*ing to change the parts structure*, whether through closures, disposals or hive-offs into joint ventures. The plan is described as a top priority by Mr Robert Stempel, who became president at the beginning of the month. He hopes to emerge with a reshaped components side within 18 months.

Disparities such as these among Detroit's big three help to explain why, according to brokers' forecasts, the maker of all those Cadillacs, Chevrolets, *Pontiacs, Buicks and more will* again this year keep well under 4 per cent of its revenues as net earnings. Chrysler is tipped to take more than 6 per cent of sales to the bottom line and Ford nearly 8 per cent.

Comparing GM more widely, a study by Oppenheimer & Co shows it up as Wall Street's only blue chip (the court-protected Texaco aside) which makes a profit, pays a dividend, and yet *has its shares selling in the market* below book value. They closed on *Friday* at $87⅛ compared to book value of $97.54 a share.

That, and almost any other measure of GM's financial standing and market rating, is blurred, however, by annual accounts which were received with horror last time round by the analysts who had to sift through them. Drexel Burnham Lambert's Mr David Healy described them as 'an accounting course in themselves' with manifold changes in practice and consequent *special items.*

More of these may be on the way as the group becomes less conservative in the yardsticks it uses to do its sums. Most important, it is considering taking longer depreciation periods on investment in new tools and equipment. The sectoral specialists guess that this alone could boost earnings per share this year by $2.50, matching the combined annual effect of tin*kerings which* showed up *in* the 1987 interims.

The company says that this latest mooted change in policy remains undecided, and in any event would merely bring it to*wards the average for industry* practice. But it is evidence of GM's strong desire to present a better picture of itself to a usu*ally* unexcited market.

Assuming depreciation is left alone, analysts' forecasts for the full-year outcome average around $8 per share, ranging as much as a dollar either side. Mr Healy at Drexel remains neutral but a number of *other* Detroit watchers are according the group under its new management a little more allure.

Mr Donald DeScenza of Nomura believes that the automotive market as a whole is facing a pronounced contraction, particularly at the profitable luxury end, but would select GM for 'those investors who are com*pelled to participate'.*

At Paine Webber Ms Ann Knight has for the last six months rated the stock attractive, although noting the aggressive customer incentives that GM is now using in order to shift *inventories.*

Acres of unsold cars would quickly become less of a problem if the wage talks break down and a strike ensues. There is no immediate prospect of that but, just in case, Mr Healy is offering to quantify it. A total North American shutdown, he says, would clip GM's full-year per-share earnings by 75 cents *for every week it lasts.*

Turkey announces early date for elections

BY DAVID BARCHARD IN ANKARA

THE ALMOST proverbial good luck of Mr Turgut Ozal, the Turkish Prime Minister, seemed to be holding yesterday as *results came in from Turkey's referendum on the future* of 242 banned political leaders.

Just before the first results were announced, *Mr Ozal said* that he had decided to hold a November general election, a year ahead of schedule. But he still has to get President Evren and the 400 member Turkish National Assembly to agree to an early poll.

The announcement, which was clearly designed to steal the initiative from his rivals whatever the referendum result, was swiftly followed by the news that the two sides were neck and neck.

With one-third of the votes counted, there were 51 per cent in favour of allowing Mr Ozal's opponents back into politics, *headed the ex-prime minister*, Mr Suleyman Demirel, and 49 per cent against.

It has been widely assumed in *Turkey in the last few weeks* that the "no" votes would represent something like an accurate test of the strength in the country of the ruling Motherland Party.

If so, Mr Ozal must draw considerable comfort from these results which follow an exhausting and often controversial referendum campaign in which he appared to be losing the initiative to Mr Demirel in recent weeks.

The fate of Mr Demirel and another ex-prime minister, Mr Bulent Ecevit, therefore hangs on a few percentage points.

If they are allowed to return *to politics, it will make a dent in* Mr Ozal's position, but a much slighter one than seemed likely at the beginning of the summer.

If the "no" votes pass the 50 per cent limit Mr Ozal's victory in the November general elections will be an odds-on bet.

However, many Turkish voters may find it difficult to accept the exclusion of the former leaders by such a narrow majority and Turkish politics may become increasingly stormy.

There was relatively little violence during the poll by Turkish standards, though 15 people were hurt in one clash.

The country's three largest newspapers had yesterday's issues seized by Istanbul police for violating election laws requiring newspapers to be neutral on polling day.

There could be several upsets in Turkish politics before November.

Mr Ozal is likely to invoke a sanction, not used until now, in the 1982 constitution. This would strip MP's, who change parties, of their membership of the National Assembly and deny them the right to stand in the next elections.

This would deter a large number of deputies from Mr Ozal's own party who are believed to be negotiating to join Mr Demirel's camp and run on the ticket of his True Path Party in the general elections.

Brazil seeks to securitise bank debts

BY ALEXANDER NICOLL, EUROMARKETS EDITOR

BRAZILIAN officials have begun an intensive round of *discussions with foreign bankers* and governments on the country's radical plan to convert half its $68bn debt to banks into tradeable securities.

Mr Fernao Bracher and Mr Antonio de Padua Seixas, Brazil's top debt negotiators, saw Sir Kit McMahon, chairman of Midland Bank, in London last night and *are due to meet other senior British* bankers as well as Bank of England officials today. They will join Mr Luiz Carlos Bresser Pereira, *the finance minister, for* a meeting in Washington tomorrow with Mr James Baker, the US Treasury Secretary.

The Brazilian plan promises to alter the course of the five-year-old debt crisis significantly.

The government, which suspended interest payments to banks in February, argues that all sides must now accept a new reality. "The goal of a quick return to the capital markets no longer seems an adequate target, *given the discount in the second*ary market and the large loss provisions banks have made," a Brazilian official said yesterday.

Traditional restructurings, the official argued, involve undertakings which are recognised by all parties to be hollow. He point·ed out *that Mexico's debt trades* at a similar discount to Brazil's in the secondary market even though it has an International Monetary Fund and debt rescheduling agreement in place and $15bn in reserves.

Under the Brazilian plan, which officials say is subject to negotiation in order to make it acceptable to banks, about $30bn *of existing* bank debt would be converted dollar for dollar into bearer securities with a maturity of about 35 years.

The bonds would bear fixed interest at a rate below that currently obtaining on Brazilian *loans. The terms would not fully* reflect the discount in the secondary market, where *Brazilian* debt now trades at some 55 per cent of face value.

The plan would contain formulae under which repayments could be accelerated and interest rates increased depending on the performance of the Brazilian economy. *Though some form of* external guarantee would be welcome, the official argued yesterday that the economy itself should be the best guarantee of the bonds' repayment.

If the plan were to go through, Brazil's external financing needs would be reduced from the $7.1bn which it has been projecting to cover interest payments this year and next. It still plans, *however, to seek $4.3bn of new* money to cover interest payments due to banks this year, as well as money to cover the half of the debt that is *not securitised.*

Brazil's eventual plan is that all the bank debt will be securitised.

Foreign bankers have so far reacted cautiously to the plan.

Third World's missing millions

BY STEPHEN FIDLER, EUROMARKETS CORRESPONDENT, IN LONDON

THE PICTURE of the moneyed *classes in Latin America salting* away millions in offshore bank accounts while their countries slide into economic decline is *one of the most potent images of* the Third World debt crisis.

Now, a new study into capital flight by the staff of the International Monetary Fund has attempted to define and quantify the problem and work out what to do about it.

Capital flight certainly represents an obstacle in the minds of creditors to lending more *money to troubled debtor countries.*

But the real problem is broader. It means that the pace of *growth of an economy is* retarded. It leads foreign indebtedness to increase, raises the costs of carrying public debt, increases the share of the public sector in investment and erodes a government's tax base.

But, as the study points out, capital flight is usually a symptom of fiscal and monetary policies which give residents strong *incentives to acquire foreign assets.*

The motive for capital flight, it says, is "a resident's concern that, *if his* wealth were held domestically, it would be subject to a substantial loss or impairment".

But the difficulties of quantifying this are complicated by the fact that not all private capital outflows are capital flight. Furthermore, money which may have left a country for legitimate reasons may turn into *flight capital if the economic* outlook changes at home.

The study suggests capital outflows of capital importing countries in *the* 11 years to 1985 amounted roughly to $250bn, accounting for one-third of the increase in these countries' external debt over the period.

Of this, perhaps, three-fifths - some $150bn to $200bn - could be viewed as capital flight. But its rate of growth has been uneven: *from a modest $5bn annually* from 1975 to 1978, *it* accelerated sharply in the late 1970s and early 1980s to $25bn to $30bn a year and then slowed again. (In 1986, according to estimates by Morgan Guaranty, some $1.7bn of flight capital may have been repatriated in total to the 10 main Third World *debtors.)*

As is suggested by the popular image, the IMF study shows that capital flight appears to have been most significant in countries with debt problems, particularly those in Latin America.

However, the study concludes *that the nature of the capital* flight changed within the period in a way which, in its words, "has had a number of implica*tions, all of them unpleasant".*

While international banks were continuing to lend money to these countries, they were effectively acting as intermediaries between domestic savers and investors. They accepted deposits from residents and lent money into the countries.

While the banks were lend*ing, this was not too serious.* However, it did increase these countries' foreign debt and contributed significantly to the *shift in perceptions of investors* as to their creditworthiness.

When they stopped willingly lending money to these countries, "capital flight became im*mediately translated into a loss* of resources," the study says. "This is a much more serious situation than the 'churning' of *claims that took place in the* 1970s."

The solution suggested is first to "adjust policies so as to avoid the pronounced discrimination against resident holders of domestic assets that has been so prevalent among developing countries". That means, where possible, shifting to market-determined interest rates.

A second implication is to float the exchange rate. If this cannot be done, then sound financial policies - controlling the fiscal deficit and thereby keeping inflationary expectations under control - become more critical.

These policies would not stop capital flight aimed at avoiding tax, however, and this is one *reason why there is support for* capital controls. The other main argument in favour of capital controls suggests that the social *rate of return* on domestic investment is greater than the private rate of return to the investor, and therefore the investor should be forced to keep his funds in the country.

Apart from the pointing to adeptness of individuals in evading such controls, the study argues that they often "substitute for the required correction in policy and are *unlikely to be* effective".

It concludes on a pessimistic note: "The intractability of the *debt problem and the evident* unwillingness of private foreign creditors to lend to a range of developing countries suggests that the belated adoption of sound economic policies may not in itself be sufficient to eliminate real capital flight."

Bankers Trust's 'bad faith'

SOME US banks deprive developing countries of one day's interest on investment accounts without telling them, according to court papers which became available at the end of last week, writes David Lascelles, Banking Correspondent.

This followed the judgment in *the Libyan assets case where Libya* won the return of $292m of deposits placed with the London branch of Bankers Trust.

According to documents and memoranda submitted to the court, Bankers Trust altered the terms of Libya's account *so that* new balances only began to attract interest 24 hours later, with the result that Libya lost about *$2m of interest. The bank did not* inform Libya of the change, and the Libyans never noticed.

Mr Peter Blenk, a Bankers Trust vice-president, told the court: "We expected that they would not notice, and we frankly wondered whether, if they did notice, they would care."

He defended Bankers Trust's action on the grounds that it was "market practice," and said other banks such as Manufacturers Hanover and Irving Trust did the same with countries in the developing world and Africa.

The "modification" had been made to improve Bankers Trust's earnings from the Libyan account after it failed to persuade the Libyans to leave larger interest-free balances.

Mr Justice Staughton said he agreed with an expert witness' opinion that the action was a *"flagrant example of bad faith"* and he ordered Bankers Trust to repay the lost interest.

Background, Page 8

Hanson Trust snaps up 5% of Midland

BY NIKKI TAIT IN LONDON

HANSON TRUST, the acquisitive UK industrial conglomerate, has descended on Midland Bank, the troubled British clearing bank, with the purchase of just over 5 per cent of its shares.

Hanson yesterday confirmed the stake - currently worth in excess of £100m ($165m) - and described it as "an investment". *The company declined to say* whether part of the interest was held in the form of options, or to spell out its future intentions.

Nevertheless, the stake is bound to fuel speculation that Midland, which has been beset *by problems on its stockbroking* and market-making side, and earlier this year made an additional £916m provision against Third World debts, could be vulnerable to predators.

There has been no shortage of overseas names rumoured to be interested in the UK clearing bank - in particular, Deutsche Bank and Hongkong and Shanghai Banking Corporation. Under the Banking Act, which comes *into force in October*, the Bank of England will only be able to bar the acquisition of an interest exceeding 15 per cent *in* UK banks if the purchaser is deemed to be not "fit and proper".

Hanson's own takeover trail has invariably involved industrial rather than *financial* targets, although the conglomerate did confirm the acquisition of 3.3 per cent of the UK merchant bank, Morgan Grenfell, two weeks ago. That interest was also described "very much as an investment".

Last week, Midland shares rose by almost 10 per cent - from 455p to 500p - as the market speculated that a sizeable stake was being built up. At this level, Midland is capitalised at £2.3bn and a 5 per cent stake *is* worth about £116m.

Midland said yesterday that it was unaware of any substantial stake-building, but admitted *that the share register was more* difficult to monitor in the aftermath of last month's £700m rights issue. "Assuming the reports to be true, we are pleased that Hanson Trust shares the confidence of the board and management in the future of Midland," commented the bank.

Midland, whose chairman is *the former* deputy governor of the Bank of England, Sir Kit McMahon, recently reported better-than-expected interim figures - 29 per cent higher at £251m pre-tax - but ran into City of London criticism for taking the Third World debt provision below the line.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	27	81	Dubrovnik	S	27	81	Malta	F	31	88	Rhodes	S	27	81
Algiers	S	30	86	Edinburgh	R	15	59	Manchester	R	14	57	Rio de J'o	-	-	-
Amsterdam	F	18	64	Faro	S	30	86	Manila	-	-	-	Rome	F	26	79
Athens	S	30	86	Florence	F	27	81	Melbourne	-	-	-	Salzburg	C	15	59
Bahrain	-	-	-	Frankfurt	C	18	64	Mexico City	-	-	-	San Francisco	S	17	63
Bangkok	-	-	-	Funchal	S	24	75	Miami	F	26	79	Seoul	-	-	-
Barcelona	F	28	82	Geneva	F	20	68	Milan	-	-	-	Singapore	-	-	-
Beirut	-	-	-	Gibraltar	S	26	79	Montreal	F	16	61	Stockholm	F	16	61
Belfast	F	15	59	Glasgow	F	15	59	Moscow	C	11	52	Strasbourg	F	21	70
Belgrade	S	30	86	Guernsey	R	14	57	Munich	C	17	63	Sydney	-	-	-
Berlin	F	19	66	Helsinki	F	16	61	Nairobi	-	-	-	Taipei	-	-	-
Biarritz	S	23	73	H. Kong	-	-	-	Naples	R	27	81	Tangier	S	29	84
Bombay	-	-	-	Innsbruck	R	15	59	Nassau	-	-	-	Tel Aviv	S	29	84
Bordeaux	F	23	73	Inverness	F	15	59	New Delhi	-	-	-	Tenerife	S	28	82
Brussels	C	17	63	Islamabad	-	-	-	New York	R	19	66	Tokyo	-	-	-
Budapest	S	27	81	Istanbul	F	25	77	Nice	S	27	81	Toronto	C	17	63
B. Aires	-	-	-	Jakarta	-	-	-	Nicosia	-	-	-	Tunis	F	30	86
Cairo	-	-	-	Jersey	R	16	61	Oporto	S	24	75	Valencia	-	-	-
Cape Town	-	-	-	Jo'burg	-	-	-	Oslo	R	13	55	Venice	F	22	72
Caracas	-	-	-	Lima	-	-	-	Paris	F	19	66	Vienna	R	16	61
Casablanca	S	29	84	Lisbon	S	29	84	Peking	-	-	-	Warsaw	S	21	70
Chicago	F	18	64	London	C	18	64	Prague	S	16	61	Washington	C	19	66
Cologne	F	19	66	Los Angeles	S	15	59	Reykjavik	-	-	-	Zurich	F	19	66
Copenhagen	F	18	64	Luxembourg	C	15	59								
Corfu	S	29	84	Madrid	S	28	82								
Dallas	F	21	70	Majorca	F	29	84								
Dublin	R	12	54	Malaga	S	29	84								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain
S-Sun Sl-Sleet Sn-Snow T-Thunder

Italians held over arms

Continued from Page 1

arrest. *Both Mr Gianni Agnelli*, Fiat chairman, and Mr Cesare Romiti, managing director, were kept informed of events.

The Financial Times was unable to reach Fiat for comment yesterday, but on Saturday Fiat *told the Italian press it had* "no operative control over the management of Valsella" which is 50 per cent owned through Fiat's Gilardini subsidiary.

Fiat claimed it was "surprised and incredulous" at the arrest of Mr Borletti, who sold his Borletti car components business them in 1985.

Not all of the charges have yet *been made clear and the managing* director of Valsella, Mr *Paolo* Torsello, is *still* being *sought by Italian police and In*terpol.

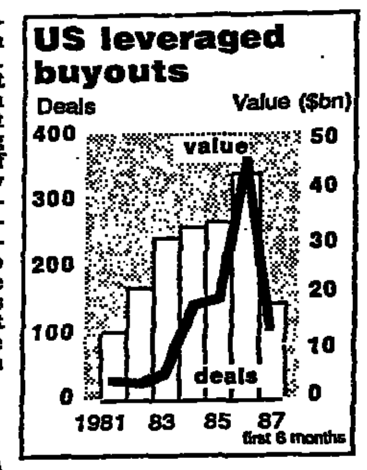
Mr Gianni Chiodi, Valsella's lawyer, was quoted yesterday saying that "the arrest warrants are generic, but I believe that what the judge found in the doc*uments is only a reference* about a possibly illegal export by the Brescia company".

Indeed Italy's regulations on the export of arms to Iran and Iraq remain confusing. Mr Renato Ruggiero, the Foreign Trade Minister, said at the weekend that a legal embargo against arms exports existed against Libya and Syria, while shipments *to Iran and* Iraq were banned

THE LEX COLUMN

The darker side of buyouts

It is remarkable how the management buyout has been creeping into bad odour lately. Last week it became clear that *the $6bn buyout of Beatrice in* the US may realise $4bn profit for its management, prompting sour questions of how much of that might have been properly due to Beatrice's original shareholders. In the UK, the management of Lee International decided unilaterally - being also majority stakeholders - to take the company private again less than 18 months after flotation. It all seems far away from the original *idea of the buyout* as a vehicle of economic efficiency.



Transitory

At a less public level, it can be argued *that the original idea* still holds good. in the UK, according to researchers at Nottingham University, 93 per cent of buyouts undertaken since 1980 are still just that - small companies run by their owners, and presumably all the better for it. The big buyouts, though, are generally designed as purely transitory phenomena, *whereby the management* cash in - and presumably return to their old ways - after two or three years of unaccustomed effort. *At its worst, this is a recipe* for business inefficiency, and can set up profound conflicts of interest between management and shareholders. And in the US at any rate, it has raised serious questions of financial prudence for both the borrowing companies and the lending banks.

The scope for sharp practice *is plainly greater when the company* being bought out is public in its own right, rather than a subsidiary. In assessing a sub*sidiary's value, theparent* company has - or should have - full access to the books, whereas shareholders of a public company have nothing of the kind. It is the duty of outside directors in the latter case to conduct an independent valuation on the shareholders' behalf. But in the US, at any rate, there is widespread cynicism about how seri*ously this job is taken, even if* the number of ensuing lawsuits says more about American litigiousness than the real scale of abuse.

Even in the case of subsidiaries, shareholders in the parent company should take heed of the price arrived at. When the parent decides to sell, it usually *does* so as the result of *considered policy, and the sub*sidiary's management often gets early wind of it. Though it is naturally hard to prove, there is anecdotal evidence that managers occasionally take advantage of the period of grace to accelerate investment and R & D, to build up working capital and to defer the booking of orders - thereby depressing reported profits, and also building up a store of value which can be released in the form of cash flow after the buyout.

Flotation

This raises the question of how attractive such a business will be if it is then offered back to the public. After a few years of being run for cash to pay down the debt, and for a fast-growing profits record to jack up its flotation value, it is likely *to be the reverse image of what* it was just before the buyout. There is the further question of management's continued com*mitment;* many an entrepreneur who sells out to a larger company and is retained as manager turns out to be more engrossed in the handling of his personal fortune than in running the business he swapped for it.

On the wider economic front, there is a growing body of opinion in the US which regards the whole leveraged buyout movement as a ticking bomb. The past five years in the US have seen the otherwise benign combination of falling interest rates and a rising equity market. As a result, whereas buyouts at the start of the period were typically on a multiple of four to six times pre-interest profits, the figure is now eight to 10 times. The same banks which once *plied developing countries with* loans are now happy to do the same for companies, with a seductive combination of debt finance at several points over prime and a slice of equity *whose expected capital appre*ciation is taken to *justify* the increased risk. If interest rates rise and equities fall in earnest, some borrowers and *lenders* look like being in trouble.

In the UK, the same dangers do not seem yet to apply. To begin with, there is a probable connection with *the fact* that whereas the amount of public equity has fallen in the US through company buy-ins of stock, it has risen sharply in the UK through rights issues and *acquisitions for paper. The US* corporate culture has leant towards leverage, the UK culture has leant away.

Competition

The rise in the UK equity market has accordingly resulted not in increased debt being made available for buyouts, but in increased competition from other companies for businesses put on the auction block. Almost always these days, bidders *in a sell-off* will include a management buyout team; but the frequency with which they can find *institutional* backers ready *to pay the same rates as* a trade purchaser is, if anything, falling. Given the steadily increasing competition from US buyout specialists in the London market, this may change. There is, though, a lot of room for manoeuvre before UK buyouts reach the US level, in terms either of proportionate size or absolute levels of gearing.

It also seems unlikely that the Beatrice-type buyout of public companies will become common in the UK. The power of the *institutions* is both greater and more concentrated than in the US, and a handful of easily-organised shareholders could block such deals, and probably do. It is significant that in the case of Lee International the *management held an absolute* majority of votes to begin with, and that in the case of Mr Harry Goodman's International Leisure *earlier this year* the managers were able to come up with a 40 per cent block in favour of going private. Even Lee International, though, felt obliged to offer minority shareholders the option of converting into shares in the new private company. The cult of the equity still rules in London, it seems, and shareholders are correspondingly more able to take care of themselves.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday September 7 1987

INTERNATIONAL BONDS

Tateho provides timely warning of futures trading perils

JAPANESE investors – so Japanese bankers say – have something of a herd instinct, writes **Alexander Nicoll in London.**

After the events of last week, the fervent hope must be that not too many companies have mimicked Tateho Chemical Industries' disastrous foray into the financial markets.

The Y20bn loss incurred by Tateho from Japanese government bond and bond futures speculation sent a shiver down the spine of markets worldwide. It triggered fears, so far mercifully unrealised, of a chain reaction traumatising today's closely-linked global markets.

Tateho provided a timely warning of the perils for industrial companies and markets alike of *zaitech* (financial technology), and particularly of injudicious futures trading. It made markets aware that other surprises might be in store from Japan.

More than that, the Tateho loss was disclosed in a week which was already disastrous for international bond markets.

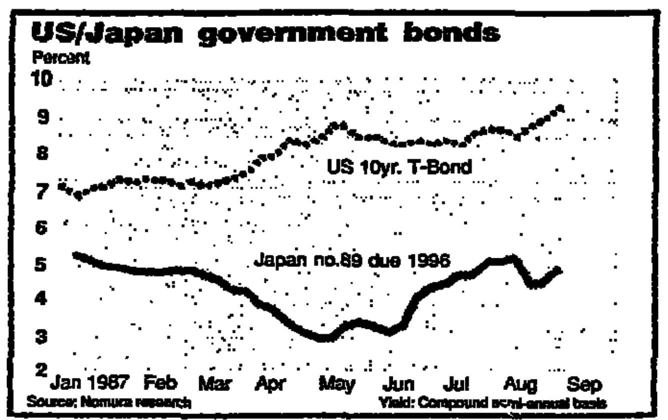
Not only did the Japanese market decline sharply, partly in response to news of the loss, but dollar bond markets continued their currency-fixated downward spiral, which was not alleviated by Friday's US discount rate increase; and bond prices were also lower in Canada, West Germany, Switzerland, France, and the Netherlands.

The fragile state of bond markets worldwide draws attention to one of the most important questions banging over them: the investment strategies of the cash-rich Japanese investor.

Of course, it is dangerous to generalise. Japanese investors, like those in any other country, have widely differing investment goals and needs. They also vary enormously in degrees of sophistication.

That said, even the institutional investors most hardened to currency losses must by now be keeping new investments in foreign currency bonds, especially those denominated in dollars, to a minimum.

Since April, life insurance companies and trust banks have been cutting back their dollar bond exposure. There has been until recently only sporadic interest in UK gilt-edged and other sectors such as Australian dollars.



For some, the last US Treasury refunding, which was swiftly followed by another sharp downturn in the dollar and bonds, could have been the last straw. Investment departments of such institutions have weathered internal disgrace caused by their currency losses simply because everybody else was suffering the same losses. But that is becoming less frequently the case.

Outstandings in short-term Japanese money markets have risen sharply this year, suggesting that the money has essentially been piling up at home. Since that trend puts downward pressure on the returns that can be earned, the stage seems set for a healthy rally in the domestic government bond market, in which prices have moved in remarkable correlation to the movements of the yen against the dollar this year.

Such is the weight and accumulation of Japanese cash, however, that many must diversify. Among dollar bonds, US Treasuries still have some appeal for their liquidity, which offers the opportunity of trading profits for increasingly nimble big institutions. Some long-term institutional investors, such as pension funds, are prepared to hang on to their dollar bond investments for the long term, ignoring short-term book losses.

Equities and equity-related bonds are clearly attractive to institutions: witness the differing appetites in Japan for Texas Instruments' recent convertible issue – with terms making for quick conversion – and Panasonic's straight bonds.

As for *zaitech*, most investments are probably in domestic markets, and that is likely to continue. Those multinational companies so large that their surplus funds must go abroad are probably also the most sophisticated in risk management.

Some Japanese companies, such as export-oriented concerns which have managed to adapt rapidly to changed circumstances, could find themselves in less desperate need of *zaitech* profits as domestic demand, and thus earnings from their industrial activities, continue to pick up.

A repeat of the Tokyo bond market rally earlier in the year would reduce the likelihood of another Tateho although it could also set up the same speculative atmosphere in which Tateho foundered. The chemical company's loss, however, will at least for a time encourage both institutional investors and *zaitech* companies to observe official warnings against excessive speculation.

In September, in any case, many investors' hands are tied: they close their books for the half year and must then wait until October. There could be some rushed sales of assets such as property or shares to make up for speculative losses. But if there are any other Tatehos, their fate is probably already sealed.

● Few markets display investors' current distaste for long maturities more graphically than the Swiss franc foreign bond sector.

Fundamentals offer no particular reason for a price slide – the market overall was down about ¾ point last week. Yet many in the recent flurry of new straight issues are languishing way below their issue prices although shorter maturities and equity-related bonds have been holding up far better.

A SFr100m 12-year issue for City of Kobe, which traded officially for the first time on Friday, finished at 95, no less than 4½ points below issue price. Sample grey market bid prices for more recent deals are Japan Finance (14 years) 3⅝ below issue price, Air Canada (15 years) 3⅞ below, and NTT (10 years) 3¼ below.

Robeco to establish sales centre in Paris

By Barry Riley in London

ROBECO, the Dutch investment group, is to establish a direct sales centre in Paris, in what amounts to its first attempt to build a marketing operation within another European country.

Until now Robeco, which manages assets totalling Fl 38bn ($18bn), has limited itself primarily to obtaining stock market listings for its four main funds in many countries although it also has a worldwide marketing office in Geneva.

France is already Robeco's most important market outside the Netherlands. Because most shares are in bearer form, the nationality of the group's investors cannot be precisely established, but the number of French shareholders is substantial and France has a particularly liberal regime for foreign investment funds.

The new Paris operation of Robeco France will be modelled on the successful Rogiro automated dealing system which Robeco has developed for the Dutch market at its Rotterdam headquarters, although without the direct access to the banks' automated funds transfer system which Robeco enjoys in the Netherlands.

The system will hold details of investors' individual holdings and will enable them to invest and withdraw money flexibly, with the appropriate number of shares being credited or debited according to current prices. Stock market dealings will be handled by Robeco, with a commission saving to investors.

Robeco France will market the same four global funds managed in Rotterdam. They are Robeco, a general equity fund, Rolinco, an equity growth fund, Rorento, a bond fund, and Rodamco, a property fund.

Robeco has hired a former head of American Express France to establish the new system.

INTERNATIONAL CREDITS

Flurry of new deals heralds end of summer lull

A FLURRY of new deals hit the international loans market last week, signalling that the end of the traditional summer lull is nigh, write **Alexander Nicoll and Stephen Fidler in London.**

Prudential Securities Group, the holding company for Prudential-Bache and the subsidiary of the big US insurance company, is raising $250m through a three-year financing being arranged by Bank of America International Limited and Union Bank of Switzerland.

The revolving multi-currency credit, which includes an option for the borrower to ask for bids for advances, carries a commitment fee of 10 basis points and drawings carry a margin of 25 basis points. Front-end fees range down from 6 basis points for a $25m commitment, the level at which the lead managers have committed.

British and Commonwealth, the UK financial services group, is raising £250m through a seven-year multi-option facility being arranged by Cayzer, its merchant bank subsidiary.

The group will also be able to draw funds either through sterling commercial paper or cash advances. There is a cap on the interest rate margin of 12.5 basis points, with the borrower paying reserve asset costs, and an underwriting fee of 6.25 basis points. Syndication is due to start today.

Victorian Public Authorities Finance Agency, which borrows with Victoria's guarantee, has mandated Citicorp Investment Bank for a $100m five-year revolving underwriting facility carrying a margin of 5 basis points over London inter bank offered rate (Libor) and an underwriting fee of 5 basis points. Utilisation fees are 5 basis points for 40 to 80 per cent usage and 7½ above that.

Credit Suisse First Boston has won two more mandates on the heels of its successful $400m acquisition financing for Hawley Group, the Bermuda-domiciled services group. That deal has already been oversubscribed with $500m committed by nine banks, and a further three acceptances expected.

Terms of the Hawley deal include a split margin on the $300m five-year term loan. The first $100m carries a 50 basis point spread over Libor, the second 62½ basis points, and the final portion 75 basis points.

The $100m three-year revolving credit has a margin of 37½ basis points and a facility fee of 25 basis points – effectively giving it the same margin as the term loan. Underwriting and participation fees vary depending on allocations and timing.

Humana Resources, the US health management group, has asked CSFB to arrange a $200m five-year revolving credit, replacing an earlier $100m deal. The margin on the first $100m is 25 basis points, rising to 35 basis points on the second. There is a 7½ basis point commitment fee for the first two years, rising to 10 basis points thereafter. Front-end fees range from 5 to 10 basis points.

CSFB is heading a £150m seven-year multi-option facility for British Land, the UK property concern, with a 12½ basis point margin and a facility fee of 10 basis points on "available" amounts and 7½ on "unavailable."

A $100m loan for the state-owned Public Power Corporation of Greece met a good response and the deal is expected to be increased. By Friday, commitments of $168m had been received for the eight-year loan, led by First Chicago and carrying a ⅜ per cent margin.

Another First Chicago-led loan, this time for Lomas and Nettleton, the US mortgage banking group, was also increased. It is now $300m, up from $250m.

Midlantic Corporation, a New Jersey bank holding company, has signed a $140m five-year note issuance facility led by S. G. Warburg and Swiss Bank Corporation International, with a margin of 10 basis points above Libor, a facility fee of 12½ basis points, and utilisation fees of 2.5 basis points below 50 per cent usage and 7½ basis points above.

In Hong Kong, Kumagai Gumi, the Japanese construction company, has mandated CEF Capital and Wardley Capital for a HK$500m three-year revolving bills of exchange facility involving a tender panel mechanism.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,107.4	2.8	110.0	3,581.0
Prev	2,466.6	791.9	134.1	6,117.7
Other	1,146.1	7.2	—	193.0
Prev	1,007.7	597.1	395.9	256.1
Secondary Market				
US$	15,570.3	2,517.1	7,649.5	3,582.1
Prev	21,744.3	2,747.7	12,550.2	5,147.2
Other	20,797.6	1,203.2	4,139.2	13,193.4
Prev	20,267.5	1,572.0	3,872.2	15,444.2

	Cedel	Euroclear	Total
US$	9,983.0	24,147.2	34,130.2
Prev	12,715.5	38,984.2	51,699.7
Other	16,949.1	23,730.6	40,679.7
Prev	17,706.3	25,706.4	43,412.7

Week to September 3 1987 Source: AIBD

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Significant narrowing of transatlantic yield gap

WILL BRITISH government bond yields on their way down meet US Treasury bond yields on their way up?

This would seem more than a slight possibility after a week in which the gilt-edged market managed to advance while all the other leading world bond markets went into decline.

One result was a significant narrowing of interest rate spreads between the US and the UK bond markets.

Over the week, the yield differential on the respective 10-year bonds fell to just over 1 percentage point from almost 1.5 points. The 10-year gilt dropped to 10.33 per cent from 10.48, while the equivalent US bond rose to 9.29 per cent from 9.00 per cent.

The gap on long-dated bonds was even narrower at the end of the week, with gilts bouncing around 10 per cent compared with the US long bond at 9.46 per cent.

If anything, the belief that yields in the two markets will cross was encouraged by the ½ point rise in the discount rate announced by the US Federal Reserve on Friday.

It was as though Dr Alan Greenspan, the new Fed chairman, had been converted to the grand old style of British interest rate management, under which the authorities were dragged periodically by the markets into gruding interest rate rises. Bond dealers would then trot out one of their favourite phrases: "Too little, too late."

How unlike the new bold approach demonstrated by the British authorities with last month's pre-emptive 1 point rise in rates!

Mr Paul Temperton, gilts economist of Merrill Lynch Europe, is among those who believe that yields will indeed cross. He estimates that inflation-adjusted gilt-edged yields in the UK, at around 6 per cent, are almost double those in the US.

What is more, he says, the UK looks a better bet from the point of view of budget deficits (and hence new bond supply), current account positions, inflation and strength of the currency.

The main question mark in the short-term seems to be whether the British market can disengage itself from worries about the dollar and the US market, amid nervousness about a series of meetings starting with the Bank for International Settlements today, followed by the Finance Ministers of the Group of 10 and of the European Community and the annual International Monetary Fund gathering.

Despite the informal target range which the government seems to have set for sterling against the D-Mark bloc, most market economists think Mrs Thatcher will not agree this month to sterling's joining the European Monetary System proper until she is happier about the way the EC handles its finances in general.

The rally in the gilts market allowed the Bank of England to release on Thursday quantities of its main tap, the Treasury 8 per cent of 1991, at 92⅞.

Worries about the international situation aside, the Bank may well feel somewhat more comforted about the prospect for its September 23 auction of about £1bn of long-term bonds.

Despite understandable cynicism in the market, the reports of foreign buying last week were consistent enough to suggest a ring of truth. That said, domestic institutions still seem reticent about committing funds in a period when the demands from the equity market are going to be so high.

There is a growing body of evidence to suggest that foreign investors, in particular the Japanese, may have been heavier buyers than had hitherto been believed. Bank of England figures for July showed that, during that month, overseas buying of gilts hit a record £1.2bn, surpassing the previous high of £1.02bn set the preceding, election, month.

Figures from the Securities Dealers' Association of Japan, gathered by Merrill Lynch, suggest that Japanese buyers could have been responsible for £1bn of this. Indeed, the figures show that the proportion of Japanese foreign bond holdings kept in gilts had risen to 9.2 per cent at the end of July, compared with 6.5 per cent at the end of 1986.

Stephen Fidler

US MONEY AND CREDIT

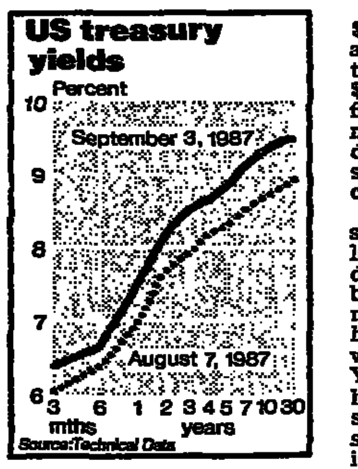
The Fed seals the market's fate

THE FEDERAL Reserve seems to have sealed the market's fate. The US, and probably the world economy, is in for a long cyclical upswing in interest rates that will end only with the next recession.

This, at least, is the virtually unanimous conclusion reached by economists and bond traders after Friday's unexpected Fed increase in the discount rate. How far it will be shared by the speculators and investors who actually move currencies and bond yields, will be revealed not by their words but by the markets' judgment.

It seems quite likely, as most market participants believe, that a half point rise in interest rates will be insufficient to stop the rot in the dollar—particularly if the trade figures on Friday prove as bad or worse than expected.

With the balance of probabilities now so overwhelmingly on the side of higher interest rates, it is hardly necessary to rehearse all the familiar bearish arguments. But is there anything left to be said in favour of the possibility of rates stabiliisng or falling, at least in the medium term?



Source: Technical Data

Even apart from the traders' standard adage that you should sell on the good news and buy on the bad, there are more reasons for uncertainty about the course of US interest rates and the whole economy than the unwonted unity among the market pundits might suggest. There are at least two other possibilities.

First, the Fed may let the dollar go on falling rather than raise interest rates further. Second, US and world economic conditions may change—or may simply evolve somewhat differently from present expecttations—making it unnecessary or even dangerous for the Fed to go on twisting the monetary ratchet.

It is just conceivable, in fact, that this increase in discount rate will prove as ephemeral as the last one—the jump from 8.5 to 9 per cent in the spring of 1984. That move was reversed within six months and was then followed by the descending steps which ended when the discount rate hit its floor of 5.5 per cent in August last year.

A few months ago, foreign exchange traders had managed so to enthuse themselves about this rate of progress, that many were ready to start celebrating the end of the dollar bear market there and then.

In the wake of last month's appalling trade figures, these same dealers have been forced to reconsider their enthusiasm. They have remembered a crucial caveat about the pace of trade adjustment which had so delighted them before the summer's disappointments.

Even with deficits of "only" $10bn monthly by next year and further reductions beyond that, America will need at least $100bn of foreign capital inflows annually well into the next decade—leaving the dollar desperately exposed to bearish sentiment as far as the eye can see.

Mr Greenspan, who was outspokenly bearish about the long-term prospects for the dollar before his nomination to be Fed chairman, presumably needed no such reminders of how vulnerable his currency was and would continue to be. Yet one ironic consequence of his awareness about the pressures on the dollar is that stabilising the currency per se is unlikely to be acceptable to Mr Greenspan as the centrepiece of US monetary policy; Mr Greenspan is not a man to chase wild geese.

This is one reason for taking at face value the terse statement put out by the Fed on Friday to explain its discount rate action. If Mr Greenspan's primary concern was to give the dollar a helping hand, he certainly went out of his way to minimise the psychological impact his move might have had on the foreign exchanges. His brief statement made no mention of the dollar, referring solely to "the intent of the Federal Reserve to deal effectively and in a timely way with potential inflationary pressures."

Nobody can dispute, of course, that a collapsing currency does constitute a "potential inflationary pressure" but it would be odd, to say the least, if Mr Greenspan chose to express his determination to support the dollar in such a convoluted form, particularly after two weeks in which foreign exchange dealers around the world have been cajoling, jeering and attacking the new Fed chairman, in the hope of hearing something reassuring about US exchange rate policy.

This ambivalent attitude would be consistent with Mr Greenspan's natural inclination to rely on market forces in the foreign exchanges, as well as his stated views about the fundamental overvaluation of the dollar. It would also accord with the continuing desire in the Treasury, the White House and Congress to put pressure on America's trading partners for expansionary fiscal and monetary policies.

If this analysis is correct, then domestic developments, at least as much as the trade deficit and the exchange rate, will determine whether last week's rise in the discount rate turns out to be the first step of an extended monetary tightening or just a touch on the tiller.

* * *

The following are the economic indicators due for release this week, along with the market's expectations as surveyed by Money Market Services of Redwood City, California:

- Monthly money supply figures (Thursday 3.30 pm) are expected to show M2 rising by $16bn, with estimates ranging from $11.1bn to $20bn. M3 shoul dgrow by $18bn with a range of $14.3bn to $24bn and M1 should remain unchanged with a range of minus $4.2bn to plus $2bn.
- Trade figures for July (Friday 8.30 am) are forecast to show a record deficit of $16bn, with estimates ranging from $13bn to $17bn.
- Producer prices (Friday 8.30) should be up 0.2 per cent, with a range of unchanged up to 0.4 per cent.

Anatole Kaletsky

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	6.88	6.92	6.69	11.34	5.71
Three-month Treasury bills	6.38	6.30	5.85	6.52	5.01
Six-month Treasury bills	6.54	6.34	6.07	6.54	5.06
Three-month prime CDs	7.20	6.90	6.75	7.25	5.46
30-day Commercial Paper	6.90	6.70	6.58	7.70	5.55
90-day Commercial Paper	7.15	6.80	6.75	7.15	5.45

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	94½	−1¼	9.10	8.82	8.50
20-year Treasury	98⅝	−2¼	9.54	9.27	8.98
30-year Treasury	94¾	−2¼	9.46	9.18	8.94
New 10-year "A" Financial	n/a	n/a	10.20	9.85	9.65
New "AA" Long utility	n/a	n/a	10.60	10.30	10.05
New "AA" Long industrial	n/a	n/a	10.50	10.15	9.90

Source: Salomon Bros (estimates).

Money Supply: In the week ended August 24 M1 rose by $2.5bn to $752.9bn

NRI TOKYO BOND INDEX

December 1983 = 100	3/9/87	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	135.47	4.91	136.68	141.26	136.86
Government Bonds	136.01	4.50	138.33	143.89	137.94
Municipal Bonds	135.10	5.63	135.56	140.48	137.59
Government-guaranteed Bonds	135.89	5.70	136.24	141.33	138.61
Bank Debentures	132.54	4.49	132.76	135.28	132.05
Corporate Bonds	135.44	5.75	135.32	138.20	135.50
Yen-denominated Foreign Bonds	138.60	6.39	138.43	139.68	136.0
Government 10-year†	—	5.69	5.05	4.08	5.[illegible]

† Estimated par yield.

Source: Nomura Research Institute.

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
ABN Bank 8½ 91	150	98	−0⅝	9.15
Aetna Life & Cas 7⅞ 16	200	90⅞	−1⅛	8.61
AHFC O/S Fin 11¾ 94	100	100⅝	+1⅛	11.68
AIDC 11 89	75	102	−0⅛	9.31
Alcoa Australia 11 92	80	102	−0⅛	10.45
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ontario Hydro 13½ 91	100	111⅞	−1	9.29
Ontario Hydro 14¾ 89	150	108⅝	−⅝	8.81
Ontario Hydro 15 92	150	120½	−1¼	9.57
Pacific Gas & El 12 00	75	108¼	+⅛	10.67
Penney J C 12¾ 91	100	106¼	−¼	10.61
Pepsico Capital 8⅞ 91	100	98⅝	−1	8.82
Pepsico 7⅞ 93	200	90¼	−1½	9.66
Petro-Canada 7¼ 96	200	83¼	−1½	10.14
Philip Morris 9⅞ 98	200	97¼	−2⅛	10.30
Postipankki 11⅛ 90	75	104	−¾	9.24
Procter & Gam 10 95	150	100¼	−2⅞	9.93
Pru Rlty Secs 0 99	365	31¼	−1½	10.79

	Issued	Bid price	Chg on week	Yield
Qantas Airways 8⅞ 96	97	90⅞	−2⅛	10.36
Quebec Prov 13 90	150	108⅝	−0⅞	9.87
Queensld Got 11½ 89	100	[illegible]	[illegible]	[illegible]
Ralston Purina 11¼ 95	150	[illegible]	[illegible]	[illegible]
Reynolds R. J. 10¼ 93	100	[illegible]	[illegible]	[illegible]
Richardson-Vicks 11½ 93	125	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Issued	Bid price	Chg on week	Yield
IBM 6⅜ 96	300	132½	−6½	−3.78
Rockefeller Centre 0 00	952	25⅝	−0⅛	−69.71
Southwest Air 6¼ 98	35	88½	−0⅝	63.95
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS		Bid price	Chg on week	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canon 3 00	100	140	−6⅛	0.39
Citizen Watch 3 00	50	146¼	0	−13.96
Eastman Kodak 6⅜ 03	300	127⅞	−2⅞	−0.24
Elders UK 5 97	75	129¼	+0½	−14.94
Fanuc 3¼ 98	80	279	+0½	1.93
Fujitsu 3 99	180	175	+4⅞	1.92
Gibraltar Savings 7½ 06	100	89½	−1⅛	22.48
ITT 4¼ 87	50	106¼	−1¼	−4.33
IU Intl Corpn 6¾ 2002	75	103⅝	−1⅞	−11.75
Lorimar-Telepics 6 01	100	86	−0⅛	86.67
Newmont Mining 7 01	100	129⅝	−6¼	0.78
Nippon Seiko 3¾ 99	70	175½	+3¼	−1.60

BOND WARRANTS	Expiry date	Bid price	Chg on week	Yield
Aegon Ins 11⅛ 91	15/2/88	—	—	—
Citicorp 8 96	1/10/88	5	−½	7.92
Credit Suisse (Panama)	13/2/92	52	−4	10.28
Den Norske Crd 8¼ 96	8/8/89	10	+1⅛	8.49
Denmark 12¾ 92	31/1/90	—	—	—
Finnish Exp Cr 12¾ 91	21/11/89	—	—	—
General Elec Crd 12 94	15/11/87	—	—	—
McDonalds 11⅛ 94	5/1/89	—	—	—
Mitsubishi Fin 12⅝ 91	8/11/89	—	—	—
Nordic Inv Bank 7⅞ 96	30/10/91	7½	−½	7.75
Westpac Banking 12⅞ 92	31/1/90	—	—	—
WeyerhaeuserC 11½ 90	15/11/87	—	—	—

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon. CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price. Closing prices on September 4.

Santa Fe submits plan to sell Southern Pacific rail network

BY ANATOLE KALETSKY IN NEW YORK

SANTA FE Southern Pacific, the US transportation company which is under orders from the Interstate Commerce Commission to dismantle its vast rail network, has decided that it will sell the 13,000-mile Southern Pacific railroad.

SFSP's proposals, submitted to the ICC on Friday, contained no surprises and left open both the possibility of Southern Pacific being broken up and of it being sold as a whole.

The next step in the divestiture process will be a complex bidding process, involving several leading US transportation companies, as well as railroad unions and corporate raiders who specialise in leveraged takeovers and breakups.

Analysts do not agree over the true value of the Southern Pacific network, which connects California with Texas and the southern parts of the mid-West.

Before the end of the lengthy saga, which began in 1983 with Santa Fe's ill-fated decision to buy Southern Pacific without the ICC's approval, Santa Fe could itself fall victim to a takeover. Mr Michael Dingman's Henley Group holds a 5 per cent stake in SFSP, and other predators may be waiting to pounce on the company, depending on the outcome of the Southern Pacific disposal.

Meanwhile, at least four groups have already announced their plans to bid for all or parts of Southern Pacific, which is estimated by analysts to be worth between $700m and $1bn, depending on how many of the railroad's real estate holdings are included in the sale.

The most intriguing of the bidders is a consortium of 17 railroad unions, with backing from Drexel Burnham Lambert, which announced two weeks ago that they were preparing an offer which would be financed partly by pay concessions from the railroad's 25,000 employees.

The other companies which have thus far expressed an interest in Southern Pacific are two much smaller railroads – the Kansas City Southern and the Denver Rio Grande. However, Kansas City Southern is itself under threat from its largest shareholder, Mr Howard Kaskel, a New York property developer who controls 8 per cent.

Burlington Northern, the biggest US railroad company, has said that it would be interested in buying parts of Southern Pacific, though probably not the whole network.

SFSP has said it would make full financial information about Southern Pacific available to potential bidders later this month and that it hopes to have a deal concluded by the end of November.

Kenner Parker and Tonka to merge

By James Buchan in New York

KENNER PARKER Toys, the New England toy group spun off from General Mills two years ago, has agreed to a defensive merger with Tonka, a smaller fellow toymaker based in Minnesota.

The merger, which will take the form of a $51 a share or $590m tender offer by Tonka for Kenner Parker, could create the largest US toy group after Hasbro and Mattel. The combined group is forecast to enjoy sales of around $800m and earnings of $40m or more.

However, it was not immediately clear how New World Entertainment, the aggressive West Coast group, would respond to the merger agreement. New World, a maker of low-budget films which recently acquired Marvel comics, has been seeking to acquire Kenner Parker for $47 a share, but its tender offer has been blocked in the Massachusetts courts.

New World said it was restrained by the court from making any comment. The company owns 8.4 per cent of Kenner Parker.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
US DOLLARS							
Aoki Corp. ¶‡	100	1992	5	3¼	100	Nomura Int.	3.250
Tokyo Hotel Chain ¶‡	70	1992	5	3¼	100	Yamaichi Int. (Eur)	3.250
Nichimen Corp. ¶‡	100	1992	5	3¼	100	Daiwa Europe	3.250
Kinki Nippon Railway ¶‡	200	1994	7	4½	100	Nomura Int.	4.500
Hanwa Co. ¶‡	120	1992	5	3¼	100	Daiwa Europe	3.250
Hanwa Co. (a) ¶‡	70	1992	5	3¼	100	Yamaichi Int. (HK)	3.250
Toho Co. ¶‡	20	1992	5	3¼	100	New Japan Secs.	3.250
Wyse Technology §‡	75	2002	15	6	100	J. H. Schroder Wagg	6.000
Nisshinbo Industries ¶‡	150	1992	5	3¼	100	Nomura Int.	3.250
Sanwa Bank §	250	2002	15	(1¾)	100	Sanwa Int.	*
Sanwa Bank (a) §	50	2002	15	(1¾)	100	Sanwa Int. Fin. (HK)	*
Daishinpan ¶	70	1992	5	(3¼)	100	New Japan Secs.	*
Sangyo Special Steel ¶	80	1992	5	(3¼)	100	Yamaichi Int. (Eur)	*
Morinaga Milk Ind. ¶	100	1992	5	(3¼)	100	Nikko Secs (Europe)	*
Ryobi ¶	50	1992	5	(3¼)	100	Nomura Int.	*
Matsushita Elec. Works ¶	300	1992	5	(3)	100	Yamaichi Int. (Eur)	*
Continental ¶‡	75	1997	10	8¾	130	Deutsche Bk Cap. Mkts	5.727
Nippon Meat Packers ¶	100	1992	5	(3)	100	Yamaichi Int. (Eur)	*
Taiyo Kobe Bank §	120	2002	15	(1¾)	100	Taiyo Kobe Int.	*
CANADIAN DOLLARS							
Toyota Motor Credit ‡	75	1990	3	11	101⅜	Morgan Guaranty	10.443
World Bank ‡	150	1994	7	11	101⅜	Morgan Guaranty	10.711
AUSTRALIAN DOLLARS							
Amro Bank Australia ‡	50	1990	3	13⅞	101⅜	EBC Amro Bank	13.166
WestLB Finance ‡	50	1994	7	13½	101⅜	WestLB	13.187
Skand. Enskilda Banken ‡	75	1990	3	13¾	101⅝	CSFB	13.061
D-MARKS							
Public Power Corp. (Greece) ‡	150	1994	7	6⅝	99¾	Dresdner Bank	6.671
Continental ¶‡	190	1997	10	6¾	134	Deutsche Bank	2.804
SWISS FRANCS							
Horizon Gold Shares** §‡	12	1992	–	4¾	100	Bank Indosuez	4.750
Nichimen Corp.** §‡	100	1992	–	½	100	Citicorp Inv. Bank	0.501
Keiyo Co.** ¶‡	60	1992	–	1	100	Bank Leu	1.000
KYC Machine Ind. Co.** §‡	30	1993	–	½	100	SBC	0.500
KYC Machine Ind. Co.** ¶‡	30	1992	–	1	100	SBC	1.000
Inabata & Co.** §‡	60	1992	–	½	100	SBC	0.500
Atsugi Nylon Ind.** §‡	150	1992	–	½	100	SBC	0.500
NEC System In. & Con.** §‡	35	1993	–	½	100	SBC	0.500
Aichi Tokei Denki Co.** ¶‡	30	1992	–	1	100	Wirtschafts- und P'bk	1.000
Fuji Kiki Co.** §‡	20	1992	–	½	100	Handelsbank N'West	0.501
Sanwa Bank §	200	1992	–	(½)	(100)	SBC	*
Sanwa Bank** §	200	1992	–	(½)	(100)	SBC	*
Sokkisha Co.** ¶	30	1992	–	(1⅛)	100	B.della Svizzera Ital.	*
Toagosei Chemical Ind.** §	60	1992	–	(⅝)	100	SBC	*
Continental ¶‡	100	2002	–	4¾	127	UBS	2.560
Nippon Meat Packers** §	100	1993	–	(⅝)	100	Crédit Suisse	*
Tokuyama Soda** ‡	100	1992	–	4¾	100	UBS	4.750
Japan Fin. Corp. Mun. Ent. ‡	100	2001	–	5	99¾	SBC	5.025
Nippon Unso** ‡	20	1992	–	4⅞	100	Crédit Suisse	4.875
ECUs							
Toyota Motor Credit ‡	85	1990	3	8	101⅜	Morgan Guaranty	7.472
Bank of Tokyo Caracao ‡	70	1992	5	8⅛	101¼	Bank of Tokyo	7.813
LUXEMBOURG FRANCS							
F. van Lanschot** ‡	300	1993	6	7⅞	100½	Bqe Paribas (Lux)	7.348
Nordlandsbanken** ‡	300	1992	5	7⅝	100	Caisse d'Epargne Lux.	7.625

* Not yet priced. ‡ Final terms. ¶ With equity warrants. § Convertible. † Floating rate note. ₵ With gold warrants. ** Private placement. ‖ Currency-linked. (a) Launched in Asia. Note: Yields are calculated on AIBD basis.

Heineken posts flat results for first half

By Our Financial Staff

HEINEKEN, the Dutch brewing group with worldwide interests, has reported virtually stagnant first-half earnings of Fl 119.4m ($58.6m) against Fl 118.8m in the same period of last year.

However, pre-tax profit was down 6 per cent on lower sales, and the company expects profits for the full year 1987 to be little changed from last year's of Fl 285.3m.

Sales in the first half fell by 7 per cent to Fl 3.18bn from Fl 3.41bn in the first six months of last year. Sales volume increased in the 12 months to June 30, but the strength of the guilder against other currencies, especially the US dollar, undermined the guilder-denominated results of foreign subsidiaries.

Heineken said the guilder's firmness against other currencies had depressed earnings while increased competition had affected exports.

However, the tax burden fell to 41.8 per cent in the first half of 1987 from 47.1 per cent in the year-ago period, reflecting a wider geographical balance in earnings.

Singapore introduces new rules for settlement of share trading

BY ALISON MAITLAND IN LONDON

NEW RULES governing the settlement of share transactions come into effect on the Singapore Stock Exchange today to a mixed response from London's international broking community.

Sellers will now be required to deliver their share certificates to brokers five business days after a trade has been agreed; they will receive payment within 24 hours. Buyers must then pay and take delivery a day later.

This "rolling" system replaces a fixed account period where trades always had to be settled on the following Tuesday.

Should a seller now fail to deliver on time, the stock exchange itself will automatically "buy in" the relevant shares on the market the following day on behalf of the buyer, with any additional costs being charged to the seller. Although brokers have had the same right in the past, they have not always exercised it.

It is possible that the market may suffer distortion today as the authorities act to clear the backlog through a buy-in of all unsettled bargains up to August 21.

The moves are seen as an attempt by the Singapore exchange to bring its operations more into line with other international markets while encouraging cash settlement.

Singapore share volume has grown dramatically in the past two years with the inflow of foreign funds, and this has exacerbated settlement delays. Buyers have sometimes had to wait up to 12 weeks for shares to be registered.

There are hopes among analysts in London that the automatic buy-in will force companies and custodian banks in Singapore, where the delays usually occur, to speed up the registration process and improve efficiency.

"If these rules have the effect of kicking the registries into life, then they will have done some good," said one London salesman.

But he cautioned that brokers and their clients, rather than the company registries, would bear the brunt of the new sanctions.

There was strong opposition to the fact that sellers will not be paid for up to 24 hours after delivery. "This makes it hard to do business in Singapore," said one salesman. "We wouldn't expect clients to accept that sort of arrangement."

He added that responsibility for having share certificates stamped would pass from local brokers to already hard-pressed banks. "This will mean more and more bottlenecks," he said.

There was general agreement that Singapore needed to move to a scripless, computerised settlements system as soon as possible. Share turnover in Singapore has grown from just over S$6bn (US$2.9bn) in the whole of 1985 to S$8bn in 1986 and to nearly S$2bn a month so far this year.

The Singapore exchange is introducing its new rules independently of Malaysia even though most companies are listed on both exchanges and the two markets often move together.

Dominion eyes Burlington units

By Robert Gibbens in Montreal

DOMINION TEXTILE, Canada's largest textile and fabrics group, is still interested in acquiring some of the subsidiaries of Burlington Industries, the US textile company.

Burlington's management succeeded earlier this summer in defeating a joint takeover approach from Domtex and Mr Asher Edelman, a US financier. The group is now being restructured, and some of its subsidiaries are being sold off.

Domtex stands to take a profit of about C$70m (US$53.4m) on the sale of its Burlington shareholding which was built up during the takeover fight.

Apart from this special item, Domtex is forecasting higher profits in the current year to June 30 1988.

UK COMPANY NEWS

Nikki Tait examines Scottish National's innovative restructuring

Putting its future security into trust

INVESTMENT trust managers —*traditionally viewed as sleepy*—have every excuse for becoming paranoid. Bid activity and stake-building within the sector continues unabated, with the likes of TR Pacific Basin, Ivory & Sime's Viking Resources, and Hambro's City of Oxford funds all under recent threat.

But a more positive aspect of this aggression is also showing through. Increasingly, fund managers are taking pre-emptive action to eliminate the *all-important discount—the difference* between the price of a trust shares and the underlying asset backing—for themselves. It is, after all, that gap between a trust's market price and the value of its holdings which makes it vulnerable in the first place.

For the most part, defensive investment trusts have tended to convert into unit trusts (where price is based directly on net asset value). Last Friday's scheme from the £350m Scottish National Trust, however, is arguably the most imaginative—and certainly one of the largest—reorganisations yet.

For a start, the Gartmore-managed fund envisages converting itself into a "split level" trust. That in itself is not unknown; trusts offering an alternative of capital or income shares have been around for 20 years and the past 12 months have seen two other funds—the £120m River and Mercantile Trust and the smaller Yeoman Investment Trust—switch to a split level structure.

What makes Scottish National different is that it plans to offer an unprecedented four classes of shares in exchange for the current one. Moreover, one of those new classes is a "zero dividend preference share," a type of security hitherto untried in London.

Conceptually, the mechanics of the scheme are not too mind-bending. First, Scottish National will have a scrip issue so that net asset backing for each share becomes equal to 100p. With nav standing at around 500p — 495p on September—that will entail giving shareholders approximately 10 new shares for every two held.

This enlarged number of shares will then be sub-divided into the four new classes. A shareholder with 10 new shares, say, will find that five become income shares; two become capital shares, with added warrants entitlements; one becomes a stepped preference share, and two become zero dividend preference shares.

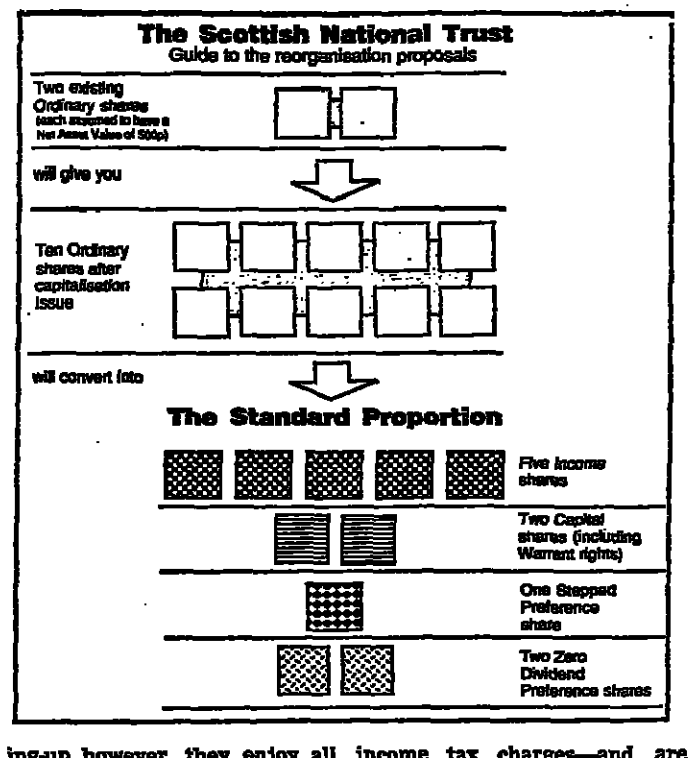
The trust will also attract a date (September 30 1998) on which it intends to wind itself up, distributing its assets to shareholders Because of the yield and capital growth conditions which attach to the *different types of shares*, all should start trading at something between 96p and 104p.

That means the discount—down to 8.6 per cent on news of the scheme but as high as 20 per cent over the past 12 months—will have disappeared.

So what are the details of these different shares? The income shares, which have voting rights, enjoy all the income generated by the portfolio once commitments on the preference shares have been met. The managers expect to pay a dividend of 6.25p in the year to end-September 1988, to give a starting yield of 8.56 per cent gross.

Income shareholders are also, initially, entitled to 50p a share on winding-up, but that asset backing should steadily increase to 100p by 1998.

The capital shares, also with voting rights, start with net asset backing of 225p a share, and hence should start trading at a *56 per cent discount*. On winding-up however, they enjoy all the capital growth achieved by the trust once the other three classes have been satisfied.



For every five capital shares held, investors also get one warrant entitling them to subscribe for one capital share at 300p.

Stepped preference shares were used in the River and Mercantile scheme, and give holders a predetermined mixture of income and capital growth. Investors are initially entitled to 100p a share on winding-up, but this should rise steadily to 171p by 1998. Meantime, there will be an income of 5p a share in 1987-88—so a gross yeild of 6.85 per cent—rising by five per cent a year thereafter.

The *new element* is the zero dividend preference shares which pay no income and are *initially entitled to 100p* on winding up. Here the entitlement should increase on a *monthly basis*, at a rate *11.3* per cent per annum, reaching about 325p by the winding up date.

The real plus is that directors say they have been advised that all amounts paid out on liquidation will be treated as capital. That means the return on the zero dividend prefs will be subject only to capital gains tax rather than more punitive income tax charges—and are ideal for Personal *Equity* Plan investors and higher rate tax-payers.

Finally, recognising that investors are likely to have different capital and income needs, the managers are also offering investors the chance to "mix 'n match" the type of shares they personally would like—so long as the overall balance is not *disturbed*.

Will it work? The three-tier River and Mercantile scheme *proved a resounding success* with the three classes of shares trading roughly within the expected *limits*.

This time, the advisers — who include Cazenove, Wood Mackenzie, Greig Middleton, and the new stockbroking firm Olliff & Partners—have carefully fine-tuned the share class breakdown to account for the recent change in interest rates (and hence, in the return on competing securities).

A tougher task may be managing the portfolio to meet *all requirements*; Gartmore, which keeps the job, says that it expects to shift half the non-UK holdings home (leaving, perhaps, 20 per cent of the portfolio overseas), to up the emphasis on high-yielders and convertibles, and is confident that there is a good deal of leeway should markets go haywire.

It even suggests that it could be well placed to turn aggressor, taking out other trusts still on a discount.

But perhaps the most unusual aspect of the reorganisation is that Scottish National appeared to be under no direct threat. True, its track record has been only average, and another Gartmore (Scotland) trust—Glasgow Stockholders—was taken over last year. True, too, the largest *interest* belongs to Gartmore's highly active parent, British & Commonwealth, which picked up a *major* stake last year, now holds 28.89 per cent, and will support the proposals at shareholders' meetings of October 2 —although Gartmore describes their stake as "benign."

Despite that support, Scottish National has taken some care to explain the finer points to the 40 per cent of shareholders who are private individuals. It is shelling out an additional £15,000 to print its prospectus in colour—coding any mention of the different types of share in orange, turquoise, blue and magenta accordingly — and hopes to issue similarly vibrant share certificates.

There is even a Freephone line to Gartmore, just in case anyone gets really stuck.

The minus point is that the whole exercise costs Scottish National—and its shareholders —almost £1m (excluding the *portfolio* reorganisations charge). But if a £10,000 holding on September 1 becomes something like £11,000 by early October, they should not complain too much.

BOARD MEETINGS

TODAY

Interims: Asset Trust, Barker and Dobson, Blackwood Hodge, C. D. Bramall, W. Canning, Delaney, Friendly Hotels, Hambro Countrywide, Invergordon Distillers, Linread, Mallett, Mersey Docks and Harbour, More O'Ferrall, Persimmon.

Final: Magnetic Materials.

FUTURE DATES

Interims—

Addison Comm. Consultancy	Sept 16
Admiral Computing	Sept 8
Amari	Sept 8
Bentalls	Sept 24
Cakebread's Builders' Merchants	Sept 23
Cory (Horace)	Sept 22
Desoutter Brothers	Sept 17
Guinness	Sept 17
Laporte Industries	Sept 17
Tarmac	Sept 21

Finals—

Bryant Holdings	Sept 22
Heggs (John)	Sept 10
Intereurope Technology Services	Sept 11
International Financial and Investment Corporation	Sept 8
Macro 4	Sept 15
Memory Computers	Sept 10
Precious Metals Trust	Sept 15

Gibbs and Dandy up 42.5% midway

Gibbs and Dandy, Luton-based builders' merchant, boosted taxable profits by 42.5 per cent from £268,000 to £382,000 in the six months to June 30, 1987. Turnover moved ahead from £9.23m to £10.61m.

The directors declared an interim dividend of 1p — the company's first ever — and forecast a final payment of 1.5p, making a total of 2.5p for the year. Last year it paid 2p. After tax of £141,000 (£117,000), earnings per share rose sharply from 1.9p to 3p.

Mr John Dandy, chairman, said that the increase in turnover reflected the company's success in retaining market share at a time when its sector of the construction industry was buoyant and competitive. Gross margins had been maintained and net profit bosted by continued control of overheads.

Turnover in the second half had so far shown satisfactory growth and indications were that the current level of trading would continue

Exceptional items peg back Copson profits

TAXABLE profits at F. Copson, Birmingham-based builders' merchant, fell from £148,428 to £112,371 in the year to April 30, 1987, dented significantly by exceptional items of £52,195. These consisted of compensation paid to the former chairman on termination of office and related items and contract settlement costs relating to a *customer*.

The chairman said that turnover—up from £7.08m to £7.29m —*and profits* before the exceptional items showed a small increase over the previous year and, *taking into account* all the circumstances, he considered the results to be satisfactory.

Last November *Mr Richard* Thompson, son of Mr David Thompson, founder and joint chairman of food and timber conglomerate Hillsdown, acquired a 51 per cent stake in Copson. In June Copson paid £2.9m for LCP Building Supplies.

The directors proposed an unchanged dividend of 1.75p for the year

AAF Inv. rights

AAF Investment Corporation plans to raise about £3.9m by a rights issue of up to 1.42m new ordinary shares on the basis of nine new shares for every 100, at 280p each, and in proportion for other holdings.

The proceeds will be used to repay short-term borrowings and provide additional capital for AAF to diversify its investment holdings.

F.T. Share Information

The following securities have been added to the Share Information Service:

Debenham Tewson & Chinnocks (section: Property).

Hegg Robinson PLC (Stores).

Norton Opax 5½pc Conv Cum Prefer Shares (Paper).

Shelton (Martin) (Paper).

Olives Paper hits out at Puri's tactics

BY STEVEN BUTLER

The Olives Paper Mill board has hit back at a campaign by Mr Nathu Puri, a major shareholder, to *defeat a* board-endorsed capital injection proposal by Mr Michael Kent. At the same time, it hinted at possible reasons for rejecting an alternative proposal by Mr Nathu Puri, and his company Melton Medes, that would result in £1.26m extra funds for the company.

In a statement sent to shareholders, Olives said *that* Mr Kent's experience would be of value to the company, that the Kent proposal *would provide* sufficient capital and would be more beneficial than an arrangement with Mr Puri.

It further said that the board had "concerns" about the future of Olives under Mr Puri, and had "concerns" about the performance of the paper-making businesses of Melton Medes, but was unable to explain these in detail because of a threat of legal action to prohibit disclosure of confidential information received from Mr Puri.

Mr Puri denied that any information in the hands of the Olives board was in any way damaging to him, *but said* that it was commercially sensitive.

Olives also issued 10 "questions" for Mr Puri, evidently aimed at casting doubt on Mr Puri's *intentions and his ability* to lead Olives.

Mr Puri said he was willing to address any of the questions but added: "There isn't any question here which is relevant. I am concerned that this mudslinging is avoiding the issue."

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "*Announcement last year.*"

	Date	Announcement last year
*BICC	Sept 9	Interim 3.5
Booker	Sept 9	Interim 4.75
*Bowater Inds.	Sept 8	Interim 4.0
British Aerospace	*Sept 10*	*Interim 8.4*
*Burmah Oil	Sept 10	Inerim 4.6
*Coats Viyella	Sept 10	Interim 4.5§
*Cons Gold	Sept 15	Final 18.0
*Costain	Sept 18	Interim 7.0§
*Dalgety	Sept 14	Final 7.5
Fisons	Sept 16	Interim 2.55§
Freemans	*Sept 22*	*Interim 2.7§*
*General Mining	Sept 10	Interim 80c
*Guinness	Sept 17	Interim 4.5
*Ibstock Johnsen	Sept 8	Interim 1.7§
Inchcape	Sept 29	Interim 7.16
Mowlem (J.)	*Oct 6*	*Interim 4.5*
*P & O	Sept 9	Interim 7.5
NEI	Sept 30	Interim 1.65
*Prudential	Sept 8	Interim 10.0
RMC	*Sept 25*	*Interim 5.0§*
*RTZ	Sept 16	Interim 7.0
*Reckitt and Colman	Sept 21	Interim 8.75
*Rolls-Royce	Sept 10	Interim due
*Rowntree	Sept 10	Interim 4.4
Rugby Portland Cement	Sept 29	Interim 3.1
*Shell Transport	Sept 10	Interim 13.5
Simon Eng	Sept 15	Interim 2.7
Stewart Wrightson	Sept 16	Interim 4.2
Sun Life	Sept 17	Interim 10.4
*Tarmac	Sept 21	Interim 2.45§
*Turner and Newell	Sept 9	Interim 2.5
*United Biscuits	*Sept 16*	*Interim 3.5*
*United Newspapers	Sep 24	Interim 6.0
*Vickers	Sep 24	Interim 6.0§
*Wimpey (George)	Sept 9	Interim 1.0
Woolworth	Sept 17	Interim 5.0

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

Blue Arrow victory clears way for £837m rights

BY NIKKI TAIT

Blue Arrow, the UK recruitment group, has formally won its $82.50-a-share offer for Manpower, the world's largest employment agency—clearing the way for London's biggest-ever rights issue, a £837m call, to fund the bid.

The tender offer closed at midnight on Friday, by which stage Blue Arrow had received acceptances on behalf of about 95 per cent of Manpower's shares—excluding those of Manpower directors.

The bid itself had become something of a formality after Blue Arrow—which came to the Unlisted Securities Market in 1984 capitalised at only £3m and is trebling in size via the $1.3bn offer—secured the Manpower board's agreement last month. To do so, it raised its initial $75-a-share terms to the current level. By then, a large proportion of Manpower's shares were in the hands of arbitrageurs.

On Friday, Blue Arrow's share price gained 6p to 166p— —exactly in line with the rights issue price. In the wake of the summer shakeout in share prices, Blue Arrow's shares had dipped below this level, creating fears that much of the heavy issue could end up with the underwriters.

Epwin makes £0.5m acquisition

Epwin Group, the supplier of made-to-order uPVC replacement windows which obtained a USM quote in April, is buying Wrekin Windows for £500,000.

The company also announced taxable profits of £902,000 on turnover of £13.4m in the half year to June *30* 1987. In the year to December 31 1986 it made £1.83m on £23.92m. The directors declared an interim dividend of 1.6p.

The consideration for Wrekin Windows will be satisfied by the issue of 202,840 new ordinary shares in Epwin which have been placed on behalf of the vendors at a price of 246.5p.

Wrekin Windows was established by Wrekin District Council as a municipal enterprise to produce uPVC windows for the council's own use and now produces a range of uPVC windows specifically designed for the local authority market.

NatWest decision

National Westminster Bank will probably decide this week whether to sell its County unit trusts subsidiary, *or* buy a life insurance company.

A spokesman for the bank yesterday refused to confirm or deny a report that it was planning to sell County Unit Trust Managers, a subsidiary of the County Group, for £30m. He said the report was speculation and they didn't comment on speculation.

R. & H. Hall lower

Lower pre-tax profits were reported by R. & H. Hall, Cork-based grain merchant, for the half year to June 30. The figures were down from I£1.67m to I£1.46m (£1.32m) and turnover was lower at £87.3m compared with £94.42m.

The directors said trade since June 30 had been at a lower level than last year, reflecting the better weather conditions this year. They expected the usual upturn in business for the autumn feeding period.

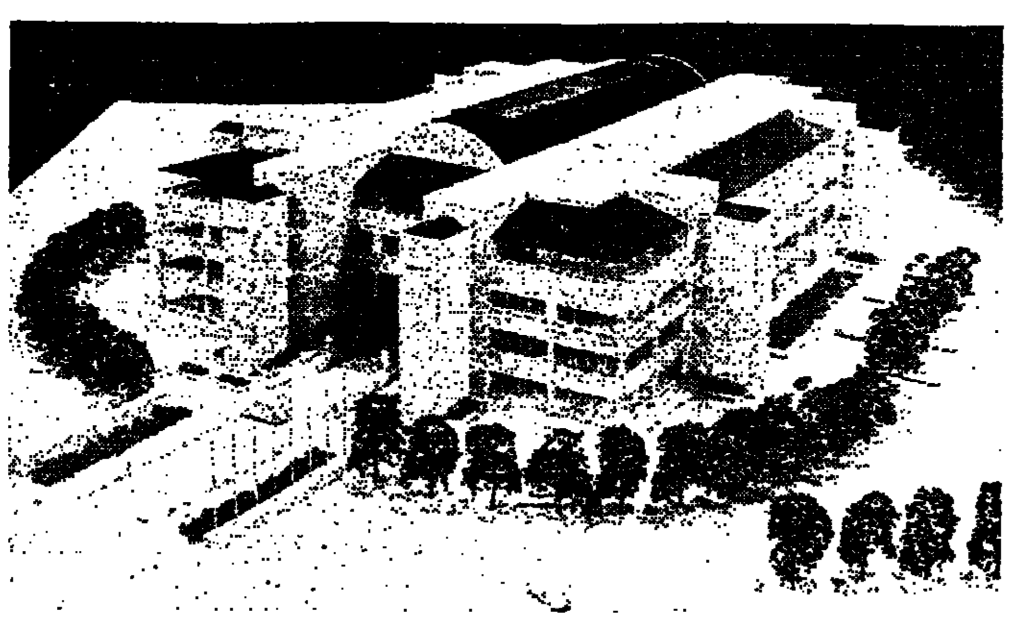
The interim dividend is unchanged at 1p net, and stated earnings per 25p share improved from 4.33p to 5.55p.

FINANCIAL TIMES STOCK INDICES

	Sept. 4	Sept. 3	Sept. 2	Sept. 1	August 28	August 27	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs.	85.72	86.00	85.66	85.33	85.05	84.96	93.32	84.49	127.4	49.18
Fixed Interest	92.18	92.20	92.24	92.02	92.58	92.77	99.12	90.23	150.4	50.53
Ordinary	1782.1	1774.5	1763.2	1778.9	1759.8	1755.1	1926.2	1320.2	1926.2	49.4
Gold Mines	451.2	452.8	444.9	438.2	431.5	435.6	497.5	288.2	734.7	43.5
FT-Act All Share	1161.14	1156.56	1147.04	1156.31	1146.69	1143.98	1238.57	835.48	1238.57	61.92
FT-SE 100	2274.9	2268.1	2249.5	2272.8	2249.7	2245.8	2443.4	1674.5	2443.4	986.9

BUILDING CONTRACTS

Building society's new HQ



WIMPEY CONSTRUCTION UK has been awarded a £20m contract to build new headquarters for the Cheltenham and Gloucester Building Society at Barnwood Fields, Gloucester.

The four-storey building will provide some 17,000 square metres of office space, to be built with a steel frame, concrete floors and a combination of patent glazing and natural granite cladding. A central area containing the main entrance and reception is under an atrium roof.

The new building, which is due for completion in mid-1989 for occupation by the autumn, will be one of Gloucestershire's largest recent construction projects.

£5m orders for Willett

WILLETT, a member of the building and civil engineering division of the Trafalgar House Group, has won orders totalling £5m.

Largest is a £1.8m contract awarded by 50E Services for construction of three warehouse blocks with associated external works, at site 800, Ancells Park, Fleet, Hampshire. Work has started for completion in December.

Willett has won a further contract at Brooklands Industrial Park, Byfleet, Weybridge, Surrey, worth £1.1m. Work has started on the spine road two contract which includes an access road to the control tower, a parking area and services which include diversion of a 10 inch diameter gas main. The project is due for completion in February 1988. Also at Brooklands, for the same client Oakimber, Willett is to build a single-storey detached property. The contract is worth £250,000 and includes external works, landscaping and incoming services.

A £1m project has been awarded by Leyland DAF, Towersey Road, Thame, Oxfordshire. The contract comprises fitting out office accommodation and alterations to a warehouse to form further offices.

For a satellite store of Marks & Spencer at Havelock Road, Harrow, Middlesex, Willett is to complete a fitting out contract worth £700,000. The work is due for completion at the end of September.

At Brooklands Industrial Park, the company has secured an order worth £200,000 from Trafalgar Brookmount to build an industrial unit, with all external works and incoming services.

Hospitality suite at bank

Fitting out the hospitality suite of the Union Bank of Switzerland's new office for UBS Securities and Philips and Drew has been awarded to the PEARCE BUILDING GROUP. Worth about £2.25m, the contract at the Broadgate Phase III development in the City of London will be carried out by Imperial Shopfitters—a specialist division of the Group. It was awarded by Laing Shoralplan Joint Venture, the design and management contractor for the project. The Union Bank of Switzerland's hospitality suite will be on the fourth floor of Broadgate III.

Tunnelling a sewer

DELTA CIVIL ENGINEERING has won four tunnelling contracts worth £3.5m including a £2.8m relief sewer tunnel at Herne Bay on the north Kent coast. The 16-month project for Canterbury City Council, agents for Southern Water Authority, involves driving more than 3.6 km of tunnels in London Clay ranging in diameter from 3.35 m to 1.2 m. The 850 m long 3.35 m diameter section will be a partially mechanised segmental drive and the remainder will be undertaken by pipejacking. A Decon backacter shield will be used for the 1.2 m drives and all jacking pipes wil be supplied by ARC Pipes.

Work has started on the 26 segmental shafts required for the project. These are up to 3.3 m diameter and range in depth from 6 m to 12 m.

In Cleveland Delta has won a £450,000 contract with Northumbrian Water Authority for a compressed air tunnel under the River Tees at Portrack near Stockton. The 220 m long 1.55 m diameter bolted segmental tunnel is intended to carry a 711 mm diameter welded steel water main when completed at the end of this year.

Willmott Dixon busy

Over £6m worth of orders have been placed with companies in the WILLMOTT DIXON group. Willmott Dixon Housing has been awarded a contract in the region of £2.5m by the South British Housing Association for construction of 80 timber-framed homes (two- and three-storey high) at North Beckton, London, E6.

Willmott Dixon Construction has an order worth about £2m for nine two-storey high technology R & D units, including associated external works at the Astra Centre, Harlow, for Dencora. Willmott Dixon London has been awarded a contract worth about £969,000 by Brightside Investments for construction of an office block at 91-95 Southwark Bridge Road, London, SE1.

A. E. Symes is to build four two-storey shop units at High Road, Ilford, for Martin Brent Developments for £595,000.

Willmott Dixon London has a Home Office contract for refurbishment to the vistors block at Pentonville Prison, Caledonian Road, London, N.7, worth £330,000. The construction company has been awarded a contract (£218,000) by Ravenseft Properties to built two two-storey shops at 121-121a High Street, Waltham Cross. Willmott Dixon Western has a contract (£118,000) from Brentford Football Club for refurbishment to the south stand.. Bush Gould is building entrance gates for £187,000 for the Shadwell Estate.

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Chichester-based GEOFFREY OSBORNE has added £5m worth of contracts to its order book for 1987. Work has started on a £2m project for Guardian Assurance in Wapping Lane, London, E1. Scheduled for completion in November 1988. the project comprises a six-storey office building with car parking on the lower ground level, retail accommodation on the ground floor finished to "shell" standard and open plan office accommodation on four upper floors finished for tenants' occupation. In Surrey, Osborne has won a £1.65m contract for a two-storey office development overlooking Stoke Park, London Road, Guildford. The old AA headquarters building on the corner, London Road and Boxgrove Road, has been demolished to make way for the new building. But the clock tower—a feature of the AA building—is to be saved and remounted on the roof of the new office block. Work has started for completion in June 1988.

★

LESLIE JONES, architects, have been appointed by the Norwich Union Insurance Group to prepare designs for a £4m refurbishment of the central area shopping development in Woking, Surrey. Construction is due to start in January, to be completed in time for Christmas 1988.

Docklands Railway site office

A £186,000 contract for two three-storey timber-frame sectional buildings with floor area totalling 850 sq metres has been awarded to system builders S. WERNICK & SONS, Wickford, Essex, by Edmund Nuttall, for installation at the Royal Mint Street site of the City of London extension to the new Docklands Light Railway. The extension, for which Edmund Nuttall are main contractors, will link the Docklands Light Railway with the London Underground system at Bank Station. The two buildings will provide accommodation for the site staff of Edmund Nuttall and the Docklands Light Railway.

★

In a £1.25m contract negotiated with Wilson (Connolly) Properties the Northampton area office of WILCON CONSTRUCTION is to provide a warehouse and production facility on the site of the old Hammer Steel building at Salthouse Road, Brackmills. When completed in April 1988 the development will provide over 100,000 sq ft of warehouse or production space and 12,000 sq ft of office accommodation.

★

ASHBY & HORNER has won five contracts worth £1.2m. These include fitting out the first floor banking suite at Barclays Bank, Camden High Street, London, NW1, and creating practice studios for the Royal Academy of Music, Marylebone Road, London, NW1. In addition, the company is to undertake external repairs to a modern extension of St Mary's Hospital, Praed Street, London, W2, and a range of improvements for St Godric's Secretarial College, Arkwright Road, London, NW3, and Royal Holloway and Bedford New College at Egham Hill, Surrey.

★

CAPE DURASTEEL has secured contracts worth over £2m. These include a £250,000 order for I.C. House, the new headquarters of ICI situated at Millbank, near Westminster, this 10-storey building will include Durasteel smoke ventilation ducting and kitchen extract ducting. Trollope and Colls has awarded a £190,000 order for smoke ventilation ducting at Leadenhall Court, an office development.

Company Notices

ÖSTERREICHISCHE LÄNDERBANK AKTIENGESELLSCHAFT

Invitation to Subscribe New Participation Certificates of AS 100 Nominal Value Each

Notice is hereby given to the holders of Participation Certificates 1986 and 1987 of Österreichische Länderbank Aktiengesellschaft of the issue of up to 183,334 new Participation Certificates of AS 100 nominal value each, with dividend coupons Nos 2-20 attached. The new Participation Certificates will be entitled to dividends from 1st September, 1987. The issue was authorised at the shareholders general meeting held on 23rd April, 1987.

Holders of Participation Certificates are hereby invited to subscribe one new Participation Certificate for every 35 Participation Certificates held at the subscription price of AS 300.00 per new Participation Certificate from 7th September, 1987 until and including 21st September, 1987 at the offices of the following Receiving Agents:

Österreichische Länderbank Aktiengesellschaft, Vienna
Österreichische Credit-Institut, Aktiengesellschaft, Vienna
[illegible]
Dresdner Bank Aktiengesellschaft, Frankfurt/Main
Morgan Guaranty Trust Company, Brussels
Swiss Bank Corporation, Basle

The subscription right cannot be exercised after the expiration of the subscription period.

To exercise the subscription right, holders of Participation Certificates must present dividend coupon No 2. [illegible] Payment for the new Participation Certificates must be received by 21st September, 1987 at the latest.

The Receiving Agents will endeavour to assist holders of Participation Certificates in buying or selling subscription rights.

Vienna, 7th September, 1987
Österreichische Länderbank Aktiengesellschaft

NOTICE TO HOLDERS OF EUROPEAN DEPOSITARY RECEIPTS (EDRs) IN
RYOBI LIMITED

[illegible]

September 7th, 1987

ENTE NAZIONALE PER L'ENERGIA ELETRICA (ENEL)
$US 300.000.000
FLOATING RATE NOTES DUE 2000

For the six months, September 3, 1987 to March 2, 1988, the rate of interest has been fixed at 7 11/16% P.A.

The interest due on March 3, 1988 against coupon nr 6 will be $US 388.65 and has been computed on the actual number of days elapsed (182) divided by 360.

THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, Avenue Emile Reuter
LUXEMBOURG

THE ROYAL BANK OF CANADA
US$300,000,000 FLOATING RATE DEBENTURE NOTES DUE 2005

NOTICE IS HEREBY GIVEN that for the interest period commencing 9th September 1987, the notes will bear interest at the rate of 7⅞% per annum. The interest payable on 9th December 1987 against coupon 7 will be US$18.95833 per US$1,000 note.

ORION ROYAL BANK, Agent Bank.

DAVIES & METCALFE plc

NOTICE IS HEREBY GIVEN that the Transfer Books of the Company will be closed from 14th September 1987 to 18th September 1987, both dates inclusive.

by order of the Board
S. ALLEN
Secretary

Injector Works, Romily, Cheshire.

Caisse Centrale de Coopération Economique

FF 600,000,000 Guaranteed Floating Rate Notes Due 1993
with warrants to acquire by exchange or purchase up to FF 600,000,000 7¾% Guaranteed Bonds due 1993

In accordance with the description of the Notes, notice is hereby given that for the interest period from September 7, 1987 to December 7, 1987, the Notes will carry an interest rate of 8 ⅛% per annum.

The interest payable on the relevant interest payment date, December 7, 1987 will be FF206.98 per note of FF10,000 nominal and FF2,069.82 per note of FF100,000 nominal.

The Agent Bank
KREDIETBANK
S.A. LUXEMBOURGEOISE

Legal Notice

IN THE SUPREME COURT OF BERMUDA
IN THE MATTER OF CAMBRIDGE REINSURANCE LIMITED (In Liquidation)

[illegible]

D. W. LINES,
E. A. WEISS,
Joint Liquidators.

Contracts & Tenders

Advertisement

The Education and Library Boards for Northern Ireland
Tender for Provision of Insurances—1 April 1988

The Education and Library Boards for Northern Ireland invite tenders for a range of insurances from insurance companies or registered insurance brokers.
The five Boards form the local Education Authorities for the Province and premiums on their current insurance portfolio are in the region of £1.5m.
The Tenderer is required to certify whether or not it is in possession of an Equal Opportunity Certificate issued under the fair employment Act (NI) 1976—(this applies to three Boards only).
Further details and tender forms are available on request from:

The Chief Officer
North-Eastern Education and Library Board
County Hall
182 Galgorm Road
Ballymena
BT42 1HN

If a tender is received in an envelope which bears any mark by which the person or firm submitting it can be identified, it will be regarded as invalid and will not be considered.

The Boards will not be bound to accept the lowest or any tender

Applications, which must be on the form supplied by the Boards, must be submitted in a sealed envelope marked "Tender for Insurance" to North-Eastern Education and Library Board, County Hall, 182 Galgorm Road, Ballymena, Co. Antrim on or before 4.00 p.m. on 30 October 1987.

OPPORTUNITY FOR INVESTMENT IN IRELAND
SALE OF IMMATURE FORESTS

The Minister for Energy, Dublin, is offering for sale by public tender competition a selection of immature forests (including the land) at various locations throughout the country. The total area involved is about 1,100 hectares.

The closing date for receipt of tenders will be noon on Friday 9th October 1987

The Minister will not bind himself to accept the highest or any tender.

For further particulars apply to:

Department of Energy
Forest Service,
Leeson Lane,
Dublin 2.
Telephone (01) 615666 Extension 564

MSB
NEW SOUTH WALES
The Maritime Services Board of NSW

Port of Newcastle Australia
Design of self propelled trailing suction hopper dredge with a grab dredge crane capacity

The Port of Newcastle invites Tenders for the design of a trailing suction hopper dredge for maintenance dredging of approximately 350,000 m³ of silt and sand to a depth of 15 metres in the Port of Newcastle and Sydney.

Details of the design services required are available from:

Port of Newcastle
PO Box 663, Newcastle, NSW 2300 Australia.
Attention Mr Graeme Sochs, Manager Works & Projects
Telex AA28761.
Facsimile 6149 2x 4586
Telephone 6149 27 2400.

Tenders are to close on Wednesday, 7th October, 1987.

WORLD MARKETS

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	THURSDAY SEPTEMBER 3 1987					WEDNESDAY SEPTEMBER 2 1987			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1987 High	1987 Low	Year ago (approx)
Australia (93)	168.10	+1.2	150.31	155.07	2.38	166.15	149.29	153.49	168.10	99.92	78.47
Austria (16)	98.32	+0.4	87.92	91.66	2.24	97.88	87.95	91.82	101.62	85.53	94.21
Belgium (48)	134.29	+0.8	120.08	124.02	3.80	133.22	119.70	123.86	134.89	96.19	92.27
Canada (129)	136.81	−0.5	122.34	130.23	2.28	137.50	123.55	130.88	141.78	100.00	100.93
Denmark (39)	123.16	+0.5	110.13	115.50	2.41	122.55	110.11	115.67	124.21	98.18	93.11
France (121)	116.57	+1.8	104.23	109.75	2.56	114.53	102.91	108.42	121.82	98.39	100.28
West Germany (92)	104.29	−0.4	93.26	97.24	1.94	104.72	94.10	98.16	104.93	84.00	96.89
Hong Kong (45)	147.36	+0.3	131.77	147.62	2.37	146.87	131.97	147.20	147.36	96.89	77.89
Ireland (14)	145.31	+0.8	129.94	137.88	3.24	144.14	129.51	137.37	145.41	99.50	84.73
Italy (76)	87.71	−1.8	78.43	85.15	2.13	89.30	80.24	87.10	112.11	84.22	106.85
Japan (458)	149.67	−1.5	133.84	133.40	0.51	151.91	136.49	135.34	161.28	100.00	98.85
Malaysia (36)	168.42	−2.7	150.60	162.81	2.28	173.08	155.52	167.26	193.64	98.24	94.23
Mexico (14)	374.62	+0.9	334.99	615.82	0.49	371.20	333.54	607.97	374.62	99.72	59.44
Netherland (37)	127.48	−0.5	113.99	117.47	3.80	128.12	115.12	118.71	131.41	99.65	102.10
New Zealand (24)	128.72	+1.9	115.10	110.49	2.69	126.28	113.47	108.79	128.72	83.93	70.58
Norway (24)	177.38	+1.2	158.62	158.30	1.71	175.24	157.46	157.34	177.38	100.00	109.08
Singapore (27)	163.71	−2.3	146.39	158.35	1.54	167.57	150.57	162.25	174.28	99.29	90.93
South Africa (61)	187.41	+1.6	167.58	136.57	3.01	184.37	165.66	136.65	198.09	100.00	95.85
Spain (43)	158.99	−1.4	142.17	145.08	2.72	161.19	144.84	147.64	161.19	100.00	101.13
Sweden (33)	128.52	+0.4	114.93	120.30	1.92	128.05	115.05	120.32	130.84	90.85	93.24
Switzerland (53)	109.62	+0.6	98.02	100.82	1.64	108.95	97.89	100.54	109.62	92.01	96.28
United Kingdom (333)	153.91	+1.3	137.63	137.63	3.21	151.94	136.52	136.52	162.87	99.65	101.85
USA (589)	130.80	−0.5	116.96	130.80	2.80	131.42	118.08	131.42	137.42	100.00	105.77
Europe (929)	127.98	+0.6	114.44	117.32	2.79	127.27	114.35	117.24	128.35	99.78	100.30
Pacific Basin (683)	150.20	−1.3	134.31	134.50	0.65	152.19	136.75	136.25	158.77	100.00	97.34
Euro—Pacific (1612)	141.38	−0.6	126.43	127.66	1.42	142.30	127.86	128.69	143.65	100.00	98.52
North America (718)	131.12	−0.5	117.25	130.79	2.77	131.74	118.37	131.41	137.55	100.00	105.52
Europe Ex. UK (596)	111.89	−0.1	100.05	104.72	2.43	111.96	100.60	105.32	111.97	98.02	99.40
Pacific Ex. Japan (225)	156.77	+0.7	140.19	148.16	2.35	155.71	139.92	147.35	156.77	99.92	78.52
World Ex. US (1816)	141.87	−0.6	126.86	128.15	1.47	142.73	128.25	129.15	143.38	100.00	98.52
World Ex. UK (2072)	135.94	−0.8	121.55	128.50	1.82	136.97	123.07	129.57	138.82	100.00	101.31
World Ex. So. Af. (2344)	137.21	−0.6	122.69	129.25	1.95	138.00	124.00	130.12	139.47	100.00	101.37
World Ex. Japan (1947)	131.74	+0.0	117.80	127.29	2.76	131.79	118.42	127.59	134.03	100.00	102.53
The World Index (2405)	137.53	−0.6	122.98	129.34	1.96	138.30	124.26	130.20	139.73	100.00	101.34

Base values: Dec 31, 1986 = 100

Latest price changes were unavailable for this edition.

CONSTITUENT CHANGES—Deletions: Monolithic Memories (US), Babcock Intl. and Stewart Wrightson (UK). NAME CHANGE: Continental Gummi-Werke to Continental AG (West Germany).

EUROPEAN OPTIONS EXCHANGE

Series		Nov 87 Vol.	Nov 87 Last	Feb 88 Vol.	Feb 88 Last	May 88 Vol.	May 88 Last	Stock
GOLD C	$500	106	8.50	92	18	—	—	$465.60
GOLD P	$420	10	2.50	—	—	—	—	"
		Sep 87		Oct 87		Nov 87		
$/Fl. C	Fl.200	130	2.30	20	4.30	1	4.80A	$Fl.202.10
$/Fl. C	Fl.205	54	0.80	35	1.80	60	2.80	"
$/Fl. C	Fl.210	100	0.20	24	0.90	—	—	"
$/Fl. C	Fl.215	15	0.10	—	—	—	—	"
$/Fl. P	Fl.200	96	1.10	41	2	30	3.10	"
$/Fl. P	Fl.205	171	3.80	130	5	11	6.20	"
		Dec 87		Mar 88		June 88		
$/Fl. C	Fl.190	—	—	10	12.50	—	—	Fl.202.10
$/Fl. C	Fl.200	59	5.40	14	6.50	18	7.40	"
$/Fl. C	Fl.205	72	2.90	8	4.60	100	5.40	"
$/Fl. C	Fl.210	12	1.55	40	3	3	3.50	"
$/Fl. C	Fl.215	23	0.70	—	—	104	2.40	"
$/Fl. C	Fl.220	—	—	10	1.40	16	2	"
$/Fl. P	Fl.195	15	2.20	—	—	4	5.90	"
$/Fl. P	Fl.200	42	4.10	—	—	—	—	"
$/Fl. P	Fl.205	36	6.70	2	9	1	10.70	"
$/Fl. P	Fl.210	11	10.80	—	—	—	—	"
$/Fl. P	Fl.225	—	—	20	24.70	—	—	"
$/Fl. P	Fl.235	20	33.70	—	—	—	—	"

		Oct. 87		Jan. 88		Apr. 88		
ABN C	Fl.50	906	1.10	195	3.20	20	5	Fl.48.50
ABN P	Fl.48	369	1.20	160	1.90	—	—	"
AEGON C	Fl.95	406	0.80	32	3.30	5	5.30	Fl.86.30
AEGON P	Fl.90	28	5.50	36	6.20B	55	7.30	"
AHOLD C	Fl.100	43	5.80	—	—	—	—	Fl.101
AHOLD P	Fl.105	154	6.50	26	7.40	—	—	"
AHOLD C	Fl.109.10	10	2.50	—	—	—	—	"
AKZO C	Fl.180	597	3.20	149	7.60	24	11.60	Fl.171
AKZO P	Fl.160	195	2	53	4.60B	2	5.70	"
AMEV C	Fl.70	94	0.50	7	1.50	—	—	Fl.59.40
AMEV P	Fl.60	35	2.30	36	4	26	5	"
AMRO C	Fl.85	171	3.80	54	7	—	—	Fl.86.40
AMRO P	Fl.75	15	0.20	40	1.30	—	—	"
ELSEVIER C	Fl.60	377	6.60	74	9.50	59	10.20	Fl.64
GIST-BROC.C	Fl.50	204	0.90	61	2.50A	21	3.50	Fl.46.40
GIST-BROC. P	Fl.50	149	4.20	10	5.20	—	—	"
HEINEKEN C	Fl.180	204	6.50	2	12	—	—	Fl.177.50
HEINEKEN P	Fl.180	774	8.40	73	10.50	2	14	"
HOOGOVENS C	Fl.55	46	0.50	36	2.20	6	3.80	Fl.47.60
HOOGOVENS P	Fl.45	81	1.30	2	2.70	12	3.70	"
KLM C	Fl.50	433	2.80	91	5.30	—	—	Fl.53
KLM P	Fl.55	192	4.90	1	5.50B	—	—	"
NEDLLOYD P	Fl.170	90	4.60	—	—	—	—	Fl.179.50
NAT.NED. C	Fl.80	131	1	104	3.60	2	5.30	Fl.75
NAT NED P	Fl.75	205	2.90	44	3.70	2	4.50	"
PHILIPS C	Fl.55	312	1	251	2.50	69	3.70	Fl.51.90
PHILIPS P	Fl.50	32	0.80	109	2.20	2	3.20	"
ROYAL DUTCH C	Fl.290	236	1.50	591	5.70	15	10	Fl.264
ROYAL DUTCH P	Fl.260	610	6.30	162	9.50B	24	11	"
ROBECO P	Fl.110	1	2.50	20	3.50	10	5	Fl.110
UNILEVER C	Fl.136	416	4.70	47	11	—	—	Fl.134.10
UNILEVER P	Fl.132	836	3	133	5.10	—	—	"

TOTAL VOLUME IN CONTRACTS: 45,061

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	10	● Charterhouse Bank	10	Nat Bk. of Kuwait	10
Adam & Company	10	Citibank NA	10	NatWestminster	10
Allied Arab Bk Ltd	10	City Merchants Bank	10	Northern Bank Ltd	10
Allied Dunbar & Co	10	Clydesdale Bank	10	Norwich Gen. Trust	10
Allied Irish Bank	10	Comm. Bk. N. East	10	PK Finans. Intl (UK)	10½
American Exp. Bk	10	Consolidated Cred	10	Provincial Trust Ltd	11
Amro Bank	10	Co-operative Bank	*10	R. Raphael & Sons	10
Henry Ansbacher	10	Cyprus Popular Bk	10	Roxburghe G'rantee	10½
ANZ Banking Group	10	Duncan Lawrie	10	Royal Bk of Scotland	10
Associates Cap Corp	10	Equat'r'l TstC'p plc	10	Royal Trust Bank	10
Authority & Co Ltd	10	Exeter Trust Ltd	10½	Smith & Williams Secs	10
Banco de Bilbao	10	Financial & Gen. Sec	10	Standard Chartered	10
Bank Hapoalim	10	First Nat. Fin. Corp	11	TSB	10
Bank Leumi (UK)	10	First Nat. Sec. Ltd	11	UDT Mortgage Exp	¶11.1
Bank Credit & Comm	10	● Robert Fleming & Co	10	United Bk of Kuwait	10
Bank of Cyprus	10	Robert Fraser & Ptrs	11	United Mizrahi Bank	10
Bank of Ireland	10	Girobank	10	Unity Trust PLC	10
Bank of India	10	Grindlays Bank	10	Western Trust	10
Bank of Scotland	10	● Guinness Mahon	10	Westpac Bank Corp	10
Banque Belge Ltd	10	HFC Trust & Savings	10	Whiteaway Laidlaw	10½
Barclays Bank	10	● Hambros Bank	10	Yorkshire Bank	10
Beneficial Tst Ltd	10	Heritable & Gen. Tst	10		
Beneficial Trust Ltd	11	● Hill Samuel	$10		
Berliner Bank AG	10	C. Hoare & Co	10		
Brit Bk of Mid East	10	Hongkong & Shangh	10		
Brown Shipley	10	Lloyds Bank	10		
Business Mtge Tst	10	Meghraj & Sons Ltd	10		
CL Bank Nederland	10	Midland Bank	10		
Canada Permanent	10	● Morgan Grenfell	10		
Cayzer Ltd	10	Mount Credit Corp. Ltd.	10		

● Members of the Accepting Houses Committee. * 7-day deposits 5%. Savewise 7.66%. Top Tier—£2,500+ at 3 months' notice 9.31%. At call when £10,000+ remains deposited. ¶ Mortgage base rate. $ Demand deposit 4.98%. Mortgage 10.5%.

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price	+ or −	Net. Div.	Times Cov'd	Gross Yield	P.E. Ratio
‡110	F.P.	18/9	121	111	Adscene	113	......	L2.5	1.9	3.0	23.9
245	100	28/8	147	130	BAA	137	......	L6.6	2.4	3.2	17.6
††	F.P.	—	84	65	BHP Gold Mines A$0.25	74	−1	—	—	—	—
80	F.P.	—	108	85	*ChemEx. Intl.	86	+1	—	—	—	—
§50	F.P.	9/9	93	68	‡Corp. Estates Props. 5p	81	......	L0.75	2.4	1.2	45.3
100	F.P.	—	114	103	F'st Spanish Inv. Tst. Units	111	−2	—	—	—	—
‖‖	F.P.	—	118	100	‡Guidehouse Grp. 1p.	102	......	—	—	—	39.2
‖‖	F.P.	—	100	75	Do. Warrants	75	−2	—	—	—	—
§140	F.P.	26/8	215	180	Kingsgrange 10p	188	+1	u2.25	2.6	1.6	28.5
§100	F.P.	—	145	108	Kingston Oil & Gas 50p	117	+1	—	—	—	—
92	F.P.	—	126	116	*Leading Leisure	125	−1	0.9	3.1	1.0	36.4
100†	F.P.	—	143	115	*Medirace 10p	143	+3	—	—	—	—
—	F.P.	—	98	55	Moorgate Inv. Warr.	95	+2	—	—	—	—
§210	F.P.	4/8	281	185	‡Parkway 5p.	255	+4	R1.5	4.2	0.8	40.2
§10.58	F.P.	—	$17½	$15	Portugal Fund $0.01	$17½	......	—	—	—	—
	F.P.	26/8	118	93	‡Rural Planning 3p.	95	......	R1.6	2.9	3.1	19.2
—	F.P.	—	118	109	Singer&Fr'dlander 10p	109	......				

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc Date	1987 High	1987 Low	Stock	Closing Price £	+ or −
‖	F.P.	30/11	105p	101p	Capital & Counties 5¾% Cnv. Prf.	104p	−1
100	F.P.	—	99½	97	Chesterfield Props 5¾pc Cr. Cm. Prf.	99½	+1½
¶	F.P.	—	145p	130p	Merlin Intl. Cnv. Red. Cnv. Prf.	145p	+9
—	F.P.	—	100	99	Nationwide 10% Bds 1/8/88	99¼	......
—	F.P.	—	100¼	99⅞	Do. 10⅞% Bds. 22/8/88	99¾	......
—	£25	11/11	25½	12¾	North Housing Assoc. 8¾% Gtd.ln.2037	13⅝	......
—	F.P.	—	270p	200p	Do. Zero Corp. Ln. 2027	205p	......
‖	Nil	25/9	3pm	2pm	Yelverton Inv. 8% Cnv. Uns. Ln. 1997	2pm	......

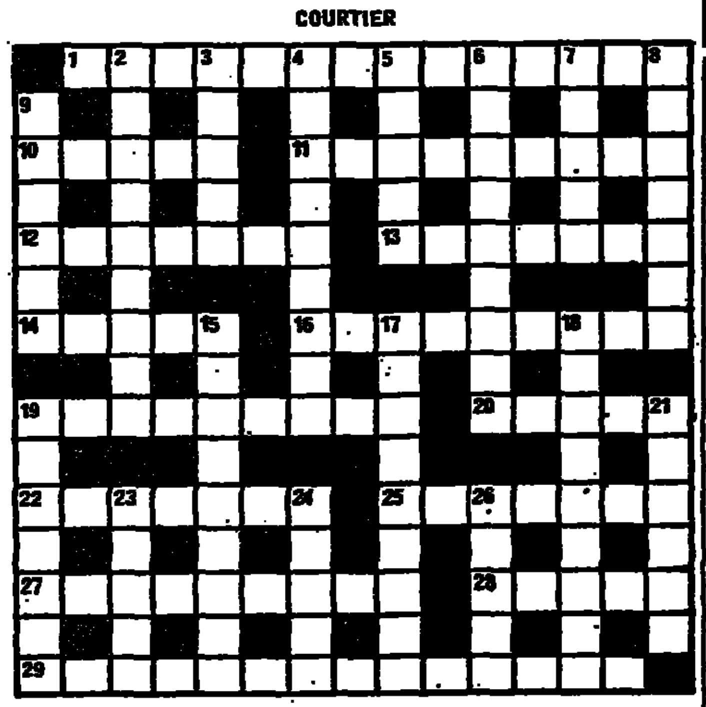
"RIGHTS" OFFERS

Issue Price	Amount Paid up	Latest Renunc Date	1987 High	1987 Low	Stock	Closing Price p	+ or −
330	Nil	9/10	40pm	22pm	Cannon St. Inv. 20p	27pm	......
810	Nil	9/10	42pm	7¼pm	Capital & Counties Unit	10¼pm	......
37	Nil	19/10	24pm	23pm	Common Bros. 1p	23pm	−1
50	Nil	7/10	162pm	138pm	Conrad Hldgs	154pm	......
92	Nil	29/10	98pm	91pm	Downiebrae 10p	96pm	+1
90	Nil	21/10	36pm	26pm	Excalibur Jewellery	28pm	−6
182	Nil	—	2pm	¼pm	FKI Electrical 10p	¼pm	−1¼
90	Nil	15/9	14pm	5pm	Goal Pet. 5p	13pm	−½
190	Nil	16/9	28pm	20pm	‡Goodhead Print 20p	20pm	......
57	Nil	16/9	7pm	5pm	Kellock Trust 1p	7pm	......
45	Nil	23/9	2¼pm	¼pm	Norfolk Capital 5p	¼pm	−¼
400	Nil	2/10	535pm	500pm	Owen & Robinson 5p	535pm	......
65	Nil	14/10	43pm	30pm	Paul (M) Leisure 5p	36pm	+1
184	Nil	16/10	23pm	18pm	Robertson Research 10pm	18pm	−2
110	Nil	5/10	7pm	4pm	‡Rockwood Hldgs 10p	6pm	+2
—	Nil	—	8pm	5pm	Singer & Friedlander 10p	5pm	−3
140	Nil	2/10	32pm	26pm	Stanley (A.G.) 5p	32pm	+4
35	Nil	6/10	7½pm	2½pm	Taltex 5p	7½pm	......
65	Nil	30/10	48pm	38pm	Upton (E.)	48pm	......

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Dividend and yield based on prospectus or other official estimates for 1986/7. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. q Earnings based on preliminary figures. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma Figures. t Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‖‖ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ■ Allotment price. ‡ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement. ‡ Placing and offer for sale price. * Third Market. †Issued in £2 Units comprising 2 Ord Shares & 1 Warrant. (Exerciseable at 50p into 1 Ord.)

FT CROSSWORD PUZZLE No. 6,423

COURTIER



ACROSS

1, 10 Cheaper by half (3,3,3,5,2,3)
11 In the teeth, apparently, of a sealed agreement (9)
12 A truth to be reasoned by them about the mineral (7)
13 Knowledge can be applied (7)
14 In Basra, I secure an increment (5)
16 Bribes involving a foul against the defenders? (9)
19 Transitory nature of a hemp reel (9)
20 A gas none experimented with after ten (5)
22 Shortages caused by financial penalties in the morning? (7)
25 A schooner, perhaps, or where it comes to rest (7)
27 Order can extend the forthcoming reel, perhaps (4,5)
28 Direction a number and I travel in Ireland (5)
29 Making no distinction in a confused way (14)

DOWN

2 Expressionless about how I send nothing (9)
3 Less restricted taking direction from organised reefer (5)
4 Precipitate witch doctor? (9)
5 Keeps the skins out of sight? (5)
6 Leads home, alongside ruler perhaps (6,3)
7 Run in order to keep the ashes (5)
8 Watch permits for these holes (7)
9 Report on a change of drink (6)
15 Sued men, ie about the Furies (9)
17 Rather aloof over the choice parts for such an application (4,5)
18 Study precisely defined and narrow (9)
19 Find fee for an educated Arab (7)
21 Prejudiced now about a roller (6)
23 Doubly involving men and women (5)
24 Sound warning so sprinted back (5)
26 Back artist ahead of child inflaming crime (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

FT UNIT TRUST INFORMATION SERVICE

Mercury Fund Managers Ltd (c)
33 King William St, EC4R 9AS 01 280 2060

American Growth	111.9	118.4	-1.0	1.25
(Accum Units)	117.2	124.0	-1.0	1.25
American Income	51.9	54.9	-0.2	4.02
(Accum Units)	56.6	59.8	-0.2	4.02
American Sm Cos Fd	50.9	53.8	-0.8	0.46
(Accum Units)	50.9	53.8	-0.8	0.46
British Blue Chip Fund	52.4	55.4	+0.2	2.29
(Accum Units)	52.4	55.4	+0.2	2.29
European Growth	158.7	167.9xd	+0.8	1.48
(Accum Units)	165.8	175.4xd	+1.0	1.48
Eurobond Income	86.2	91.2	+0.3	3.31
(Accum Units)	90.6	95.8	+0.3	3.31
Exempt	349.2	358.1xd		2.26
(Accum Units)	357.2	366.3xd		2.26
General	383.0	405.2xd	+2.3	1.33
(Accum Units)	640.1	677.3xd	+3.8	1.33
Gilt	86.6	87.0	-0.1	7.61
(Accum Units)	103.0	103.5	+0.0	7.61
Global Fund	51.9	54.9	-0.1	0.64
(Accum Units)	51.9	54.9	-0.1	0.64
High Income Fund	53.6	56.7xd	+0.5	4.75
(Accum Units)	54.5	57.6xd	+0.5	4.75
High Interest Fund	43.1	45.6	+0.1	9.89
(Accum Units)	43.5	46.0	+0.1	9.89
Income	127.2	134.5xd	+1.1	2.68
(Accum Units)	146.8	155.3xd	+1.4	2.68
International	311.9	330.0	-0.1	1.34
(Accum Units)	390.3	413.0	-0.1	1.34
Japan	212.5	224.8	+0.3	0.50
(Accum Units)	218.1	230.7	+0.2	0.50
Pacific Fund	57.9	61.2	-0.4	0.10
(Accum Units)	57.9	61.2	-0.4	0.10
Recovery	322.5	341.2	+3.5	1.34
(Accum Units)	350.6	371.0	+3.6	1.34
UK Smaller Co's Fund	56.0	59.2xd	+0.3	1.69
(Accum Units)	56.6	59.8xd	+0.4	1.69

Merlin Fund Mngmnt Ltd
30 St James St, London SW1A 1HB 01-925 1277

Merlin Sept 1	627.5	636.5	—	1.08

Metropolitan Unit Trust Mngrs Ltd
3 Darkes Lane, Potters Bar EN6 1AJ. 0707 45184

UK Income Fund	62.4	66.3xd	+0.7	4.52
Accum Units	63.0	67.0xd	+0.7	4.48
UK Growth Fund Acc	62.9	66.9	+0.8	2.49
Global Income Fund	49.4	52.5	-0.1	3.81
Accum Units	49.4	52.5	-0.1	3.81

Provident Mutual Unit Trust Managers Ltd.
25-31 Moorgate, London EC2R 6BA. 01-588 3963

PM Equity Growth	120.6	128.3	+0.5	1.01
PM Income and Growth	106.5	113.3	+0.4	2.91
PM N American Growth	58.0	61.6	-0.6	0.34
PM European Growth	53.3	56.6		0.54
PM Japan Growth	75.0	79.7	-0.1	0.35
PM Overseas Growth	57.4	61.0	-0.5	0.43

Prudential Unit Trust Mngrs Ltd (a) (b) (c)
51-59 Ilford Hill, Ilford, Essex IG1 2DL 01-478 3377
Holborn LinkLine 0800 010505

Holborn Comm Tst	83.3	88.1xd	+0.2	0.35
Holborn Equity Income	73.5	77.7xd	+0.3	3.31
Holborn Equity Tst	599.2	644.0	+2.7	2.13
Holborn European Tst	126.3	133.6	+0.6	0.62
Holborn Gilt Tst	207.6	216.8	+0.7	2.20
Holborn High Inc Tst	90.3	95.5	+0.5	4.52
Holborn Intl Grth Tst	125.0	133.1xd	+0.2	0.66
Holborn Intl Sm Cos	—	0.50		—
Holborn Japanese Tst	139.9	148.0xd	-0.5	0.04
Holborn N. Amer. Tst	95.8	101.3	-0.7	0.48
Holborn Sm Cos Tst	81.2	85.9	+0.6	1.35
Holborn Spec Sits Tst	106.7	112.9	+1.1	1.29
Holborn UK Growth Tst	118.9	125.8xd	+0.7	1.47

Quilter Management Co Ltd
31-45 Gresham Street, London EC2 01-600 4177

Quadrant Gen. Fd	654.9	693.1	—	1.41
Quadrant Income	321.6	340.4	—	3.91
Quadrant Intl Fund	465.3	492.4	—	1.01
Quadrant Spec. Sits	450.0	476.2	—	1.38

Reliance Unit Mgrs. Ltd
Reliance House, Tunbridge Wells, Kent 0892 510035

British Life	246.3	262.0	+1.4	2.30
Reliance Unit Tst (Inc)	172.2	183.1	+1.1	1.44
Reliance Ut Tst (Acc)	231.7	246.4	+1.4	1.44

Rensburg Fund Managers
Silkhouse Ct., Tithebarn St., Liverpool. 051-227 2090

Internat. Growth Trust	51.2	53.9	-0.7	1.5

N.M. Rothschild Fund Mgmt
St Swithin's Lane, London EC4 01-634 2981/4

Standard Life Trust Mgmt. Ltd
3 George St Edinburgh EH2

Stewart Ivory Unit Trust Mgrs Ltd (a)
45 Charlotte Sq, Edinburgh

Sun Alliance Fund Management Ltd
Sun Alliance House, Horsham

Sun Life of Canada Unit Mgrs Ltd
Basingview, Basingstoke, Hants

INSURANCES

FT UNIT TRUST INFORMATION SERVICE

Manufacturers Life Insurance Co (UK)
St George's Way, Stevenage 0438 356101

Managed	451.0	474.7		
Property	282.7	297.6		
Equity	575.3	605.6		—
Gilt Edged	350.6	369.0		—
Deposit	205.9	216.7		—
Investment	245.1	257.4		—
International	439.9	462.9		—

Pension Fund Prices

Managed Int.		329.5		—
Do. Accum		405.3		—
Property Int.		246.2		—
Do. Accum		302.7		—
Equity Int.		431.6		—
Do. Accum		529.9		—
Gilt-Edged Int.		221.5		—
Do. Accum		272.4		—
Guaranteed Int.		158.6		—
Do. Accum		195.0		—
International Int.		539.6		—
Do. Accum		662.9		—
Index Lk. Gilt Int.		139.3		—
Do. Accum		164.4		—

Merchant Investors Assurance
Leon House, 233 High St, Croydon 01-686 9171

Property		318.5	+0.2	—
Property Pens		426.7	+0.3	—
Equity		197.2	+0.1	—
Equity Pens		892.4	+2.2	—
Money Market		297.0	+2.0	—
Money Mkt. Pens		534.2	+3.6	—
Deposit		238.7	+0.1	—
Deposit Pens		331.4	+0.2	—
Managed		297.5	+0.8	—
Managed Pens		574.1	+2.4	—
Intl. Equity		357.3	-1.3	—
Do. Pens		580.3	-2.3	—
Intl. Managed		326.6	-0.9	—
Do. Pens		497.0	-0.5	—
North American		135.4	-0.8	—
Do. Pens		155.8	-1.6	—
Far East		300.1	-8.9	—

National Provident Inst.—Contd.

Far East Initial	500.4	526.9	+1.0	—
Far East	599.6	631.2	+1.2	—
Prop. Initial	143.6	151.2	-0.1	—
Prop.	172.3	181.4		—
Fixed Int. Initial	181.7	191.3	+0.8	—
Fixed Int.	218.3	229.8	+0.9	—
Indexed Gilt Initial	101.0	106.4		—
Indexed Gilt	120.2	126.6		—
Deposit Initial	135.3	142.5		—
Deposit	164.3	173.0		—

NPI Pensions Management Ltd

Managed Fund	966.1	983.4	-21.8	—

Prices Sept. 1. Next dealing Oct. 1.

Norwich Union Asset Management Ltd
PO Box 124, Norwich NR1 1JS 0603 683986

NUAM Funds

Managed Fund	57.7	60.8	+0.1	—
Stock Market Mngd Fund	59.7	62.9		—
Equity Fund	64.5	67.9	+0.2	—
International Fund	56.0	59.0	-0.1	—
European Fund	60.0	63.2	+0.1	—
North American Fund	51.2	53.9	-0.2	—
Pacific Fund	65.8	69.3		—
Property Fund	52.1	54.9		—
Fixed Interest Funds	48.2	50.8	+0.1	—
Index Linked Sec Fund	45.6	48.3		—
Deposit Fund	51.2	53.9		—

NUAM Retirement Plans

Mixed Fund	61.5	64.8	+0.4	—
UK Ordinary Share	73.2	77.1	-0.7	—
International Fund	58.0	61.1		—
Property Fund	52.1	54.9		—
Fixed Interest Fund	49.9	52.6	+0.2	—
Index Linked Sec Fund	46.0	48.5		—
Deposit Fund	53.2	56.1		—

NUAM (MF)

Managed Fund	793.2	835.0	+1.1	—
Equity Fund	1720.4	1811.0	+5.5	—
Property Fund	324.3	341.4		—
Fixed Interest Fund	355.4	374.2	+0.6	—
Deposit Fund	209.0	220.0		—
International Fund	145.4	153.1	-0.3	—

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)					
3May 3Nov	Treas. 12pc 1987	100	27.3	11.98	10.06
26 Jul 26 Jan	Treas 7¾pc 1985-88‡‡	99	19.6	7.80	9.18
10Nov 10May	Exch 10½pc '88	100	3.4	10.49	10.21
14Dec 14Jun	Treas 9¾pc Cv '88	99	8.5	9.79	10.28
1Jan 1Jul	Transport 3pc '78-88	96	26.5	3.11	7.31
25 Apr 25 Oct	Treas. 9½pc '88	99	19.3	9.59	10.31
22 Aug 22 Feb	Treas 11½pc 1989	101	16.7	11.33	10.31
18 Oct 18 Apr	Treas 9½pc Cnv 1989	98	12.3	9.62	10.31
15Nov 15May	Treas 3pc 1989	93	8.4	3.22	7.36
14Dec 14Jun	Treas 10½pc 1989	100	8.5	10.48	10.32
1Feb 1Aug	Exch. 10pc 1989	99	25.6	10.06	10.32
29 Mar 29 Sep	Exch 11pc 1989	101 xd	20.2	10.87	10.34
15 Apr 15 Oct	Treas 5pc 1986-89	92	9.3	5.38	8.72
15 May 15 Nov	Exch 10¼pcCv '89	100	8.4	10.22	10.05
15 Jul 15 Jan	Treas 13pc 1990‡‡	105	8.6	12.31	10.20
12 Aug 12 Feb	Exch 11pc 1990‡‡	101	16.7	10.84	10.26
22 Sep 22 Mar	Exch. 12½pc 1990	104	17.8	11.92	10.27
8 Nov 8 May	Treas. 3pc 1990	88	1.4	3.39	7.85
15 Dec 15 Jun	Treas 8¼pc 1987-90‡‡	95	11.5	8.62	10.02
25 Apr 25 Oct	Treas. 10pcCv 1990	99	19.3	10.10	10.33
22 May 22 Nov	Exch 2½pc 1990	85	15.4	2.91	7.55
10 July 10 Jan	Treas 11¾pc 1991	103	3.6	11.32	10.33
5Oct 5Apr	Funding 5¾pc '87-91‡‡	89 xd	2.3	6.44	9.33
13 Nov 13 May	Treas. 3pc 1991	84	6.4	3.59	7.89
12Jan 12July	Treas 10pc Cv '91 ‡‡	100	5.6	10.01	10.02
25Apr 25Oct	Exch. 11pc 1991	102	19.3	10.77	10.33
—	Treas. 8pc 1991●	92	—		
22July 22Jan	Treas 12¾pc 1992‡‡	108	13.6	11.76	10.28
21Aug 21Feb	Treas 10pc 1992	99	15.7	10.09	10.24
13Oct 13Apr	Treas. 8pc 1992 ‡‡	92	—	8.78	10.45
7 Nov 7 May	Treas 10½pc Cv 1992‡‡	100	31.3	10.43	10.28
—	Treas. 3pc 1992	79	—	3.74	8.03
25 Feb 25 Aug	Exch. 12¼pc '92	107	20.7	11.42	10.31
Five to Fifteen Years					
22Mar 22Sep	Exch 13½pc 1992	112	17.8	12.04	10.34
15Oct 15Apr	Treas 10pc 1993‡‡	98	9.3	10.12	10.26
14Jan 14Jul	Treas 12½pc 1993‡‡	109	8.6	11.44	10.33
15Mar 15Sep	Funding 6pc 1993‡‡	85 xd	10.8	7.01	9.14
23May 23Nov	Treas 13¾pc 1993‡‡	114	16.4	11.96	10.38
1 Sept 1 Mar	Treas 14½pc 1994‡‡	119 xd	27.7	12.19	10.33
27Oct 27Apr	Exch 13½pc 1994	114	23.3	11.82	10.46
9Jan 9Dec	Treas. 10pc Ln. 1994‡‡	98	5.5	10.11	10.21
22Feb 22Aug	Exch. 12½pc 1994	109	16.7	11.38	10.45
17May 17Nov	Treas 9pc 1994‡‡	94	10.4	9.52	10.07
25Jul 25Jan	Treas 12pc 1995	107	18.6	11.14	10.45
1Nov 1May	Exch 3pc Gas 90-95	81	23.3	3.44	7.88
21Jan 21Jul	Exch. 10¼pc 1995	99	15.6	10.31	10.34
15May 15Nov	Treas 12¾pc 1995‡‡	112	8.4	11.34	10.43
22Jly 22Jan	Treas. 14pc '96	118	15.6	11.78	10.53
15Sep 15Mar	Treas.9pc 1992-96‡‡	94 xd	10.8	9.57	10.06
3Nov 3May	Treas 15¼pc 1996‡‡	126	27.3	12.05	10.49

BRITISH FUNDS—Contd

Index-Linked

Interest Due	Stock	(b)	Price £	Last xd	(1)	(2)
30 Sep 30 Mar	Treas. 2pc '88	(297.1)	131 xd	23.2	—	2.03
25 Jul 25 Jan	Do. 2pc '90	(333.9)	114	18.6	0.99	3.13
23Sep 23Mar	Do. 2pc '92‡‡ (335.8)		96	17.8		3.52
16Mar 16Sep	Do. 2pc '96	(267.9)	125 xd	10.8	3.41	3.87
24Mar 24Sep	Do 2½pc '01	(308.8)	103 xd	16.2	3.58	4.25
20Nov 20May	Do. 2½pc '03	(310.7)	101	13.4	3.57	4.22
19Jan 19July	Do. 2pc '06	(274.1)	102	12.6	3.61	4.13
20Nov 20May	Do. 2½pc '09	(310.7)	97	13.4	3.59	4.05
23Feb 23Aug	Do. 2½pc '11	(294.1)	102	17.7	3.70	3.99
16Feb 16Aug	Do. 2½pc '13	(351.9)	85	13.7	3.63	3.93
26Jan 26July	Do. 2½pc '16	(322.0)	92	19.6	3.42	3.86
16Oct 16Apr	Do. 2½pc '20	(327.3)	90	10.3	3.51	3.78
17Jan 17July	Do. 2½pc '24 ‡‡(385.3)		77	10.6	3.40	3.69

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, ie 8 months prior to issue. RPI for December 1986: 393.0 and for July 1987: 101.8 (rebased at 100 January 1987 conversion factor 3.9451).

INT. BANK AND O'SEAS GOVT STERLING ISSUES

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
4 Jan 4 Jul	African Dv Bk 11¼Ln 2010	100	4.6	11.08	11.06
24Mar 24Sep	Asian Dev Bk 10½pcLn2009	96	23.2	10.65	10.69
28Jan 28Jly	Australia 13½pc 2010	121	29.6	11.16	10.97
26Apr 26Oct	Do. 11½pcLn2015	103	27.3	10.95	10.92
23Mar 23Sep	Euro Inv Bk 11pc Ln 2002	102	23.2	10.69	10.61
22Mar 22Nov	Do. 10¾pc2004	98	22.4	10.57	10.60
8Jan 8Jul	Int-Am Dev Bk 12½pc 2003	113	4.6	11.04	10.70
15 May 15 Nov	Do. 9½pcLn 2015	91	15.4	10.64	10.68
31 Jan 31 Jul	Mlysia 10⅞pcLn 2009	89 xd	1.7	12.08	12.18
3Jan 3Jul	Malaysia 12½pc '88	99	3.6		—
4May 4Nov	NZ 11½pc 2008	102	6.4	11.03	10.99
25May 25Sep	Do 11½pc 2014	104	23.2	11.03	11.00
22 Jan 22 July	Sweden 13½pc Ln 2010	121	22.6	11.15	10.94
1Mar 1Sep	Utd. Mexican States 16½pc	101 xd	3.8	16.34	15.29

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

Over Fifteen Years

Undated

FOREIGN BONDS & RAILS

Interest Due	Stock	Price £	Last xd	Div % Gross	Red. Yield
1Apr 1Oct	Greek 7pc Ass.	53	1.5	3.50	f6.60
1Feb 1Aug	Do. 6pc 28 Stb. Ass.	50 xd	3.8	3	f6.00
1Apr 1Oct	Do 4pc Mixed Ass.	58	1.4	2	f4.23
1May 1Nov	Hung. '24 Ass	64	5'85	2.75	f4.30
31May 30Nov	Hydro Quebec 15pc 2011	130	3.6	15.00	11.27
31Jan 31Jly	Iceland 14½pc Ln 2016	122 xd	13.00	14.50	11.70
1Mar 1Sept	Iceland 9¾pc '91-96	97 xd	10.8	9.75	10.25

AMERICANS

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
Fb My Ag Nv	Abbott Laboratories$1	37	13.00	$1.00	—	1.7
F My Ag N	Alcoa $1	33	28.4	$1.20	—	2.2
—	Allegheny & W $0.01	14	—	30c	—	1.3
—	Amax $1	15	9'85	—	—	—
Nv Mr Jn Ag	Amdahl 5c	25	5.11	20c	—	0.5
Mr.Je.Se.De.	Amer. Cyanamid $5	30 xd	25.8	$1.90	—	3.8
Fb My Ag Nv	Amer. Express $0.60	21 xd	12.1	$1.44	—	4.1
Fb My Au Nv	Amer. Medical Int. $1	10	10.4	†72c	—	4.3
Fb My Ag Nv	American T. & T. $1	20	25.9	$1.20	—	3.7
Fb My Ag Nv	Ameritech $1	55	29.12	h$4.72	—	5.2
—	Amfacll	20	11'84	—	—	—
—	Anheuser-Busch $1	23	—	$2.00	—	5.3
—	AndTech	98p	—	—	—	—
—	BankAmerica $1.5	7	11'85	—	—	—
Ap Jly Oc Jan	Bankers N.Y. $10	28	26.3	$1.66	—	3.6
Ja Ap Jy Oct	BASIX Corp.	287p	18.6	12c	—	2.6
My Au N Fb	Bell Atlantic $1	43	25.9	$3.84	—	5.4
—	BellSouth Corp.	24	7.7	$2.04		5.2
Mar Jun S D	Bethlehem Steel $8	10	4.11	—	—	—
—	Bio-Rad Labs. Inc. 'A'	15	—	—	—	—
Oc Ja Ap Jy	Bowater Inc.	23	5.6	80c	—	2.1
Ja Ap Jly O	Browning-Ferris 16⅔c	28	17.3	b40c	—	1.2
F My Au N	Brunswick	16	21.7	30c	—	1.1
Jan Ap Jly O	CPC Intnl. 25c	32	25.9	h$1.24	—	2.4
Mr Ju Se De	CSX Corp U.S.$1.00	23	19.8	$1.16	—	3.0
Mr Jn Sp De	CalFed Inc $1.00	19	11.8	60c	—	1.9
Oc Ja Ap Jy	Campbell Soup 30c	38	13.00	$1.44	—	2.3
F My Au N	Caterpillar Inc $1.00	36 xd	15.7	50c	—	0.8
Jn Ap Jy Oc	Cenergy Corp. 25c	581p	30.8	4c	—	0.4
Fb.My.Ag.Nv.	Chase Manhattan $12.5	24	1.5	$2.16	—	5.5
Ap Jy Oc Ja	Chemical New York	23	10.12	$2.72	—	7.0
Mar Jun S D	Chrysler $6¼	26	10.6	†$1.00	—	2.3
My Au N F	Citicorp $4	36	27.4	$2.46	—	4.1
Fb My Ag Nv	CityFed Fin. Corp.	528p	29.10	40c	—	4.6
F My Au N	Colgate-Palmolive $1	29 xd	21.10	$1.36	—	2.8
June	Colt Inds. $1	875p	6'86	—	—	—
Fe My Au Nv	Cons Freightways $0.625	22	03.01	82c	—	2.2

Continued on next page

Money Market Bank Accounts

Money Market Trust Funds

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Continued

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
Oc Ja Ap Jy	Sara Lee $1	26¼	13.00	$1.00	—	2.3
Mr Ju Se De	Saul (B. F.) $1	11¼	26.6	20c	—	1.1
Fb My Ag No	Southwestern Bell $1	23	7.7	$2.32	—	6.2
—	Staley Continental	17¾	—	80c	—	2.7
Mr Jn Se De	Sun Co. Inc. $1	36½	5.8	$3.00	—	5.1
Ma Ju Se De	TRW Inc. $0.625	37¾	11.8	$1.60	—	—
Mr Jn Sp Dc	Tenneco $5	32¾	11.8	$3.04	—	5.8
June Dec	Do. 10pcLn.Stk. 91-5	202½	13.09	10%	—	f5.0
Mr Je Se De	Texaco $6.25	24¼	31.7	$3.00	—	7.6
Mr Ju Se De	Time Inc. $1	64¾	22.8	$1.00	—	1.0
Ja Ap Jy Oc	Tracor $0.33	14¼	16.9	40c	—	1.7
Ja Ap Jo Oc	Transamerica $1	26⅛	30.6	$1.76	—	4.1
Fe My Au No	Transworld Corp $5	12⅝	11.11	20c	—	1.0
Mc Je Se De	TRINOVA Corp.	44½	11.8	$1.00		1.4
Mr Je Se De	♦USX $1	21⅞	30.10	$1.20	—	3.4
Ag Nv Fb Jn	Union Carbide $1	17⅝	4.8	$1.50	—	5.4
Mr Jn Sp De	Utd. Technologies	33½	19.5	$1.40	—	2.6
Fb My Ag No	US West	33½	13.4	$3.28	—	6.0
—	Waste Management $1	27½	—	—	—	—
—	Whirlpool $1.0	£22⅞	—	—	—	—
Mr Je Se De	♦Woolworth $3½	32¾	19.11	$1.32	—	2.5

CANADIANS

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
—	ABM Gold Corp B	396p	—	—	—	—
—	♦Alston Energy Corp.	20	—	—	—	—
—	♦Amer. Barrick Res.	14	—	—	—	—
	♦Argyll...	76p				

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

INDUSTRIALS—Continued

[illegible]

INSURANCES

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

INSURANCES—Continued

[illegible]

LEISURE

[illegible]

MOTORS

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING—Continued

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Cont.

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

FINANCE, LAND—Cont.

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Continued

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Continued

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 27 per cent and allow for value of declared distribution and rights.

● "Tap Stock".
* Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
† Interim since increased or resumed.
‡ Interim since reduced, passed or deferred.
‡‡ Tax-free to non-residents on application.
ϕ Figures or report awaited.
♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
❈ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Dealt in under Rule 535(3).
\# Price at time of suspension.
¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
♦ Merger bid or reorganisation in progress.
♣ Not comparable.
♠ Same interim: reduced final and/or reduced earnings indicated.
§ Forecast dividend; cover on earnings updated by latest interim statement.
‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
‖ No par value.

B.Fr. Belgian Francs. Fr. French Francs. §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	95	......	Fin. 13% 97/02	£105½xd	......
Craig & Rose £1	638	......	Arnotts	380	......
Finlay Pkg. 5p	112	......	CPI Hldgs	90	......
Holt (Jos) 25p	1005	......	Carrol Inds.	175	......
IoM Stm. £1	173	......	Dublin Gas	25	+2
			Hall (R. & H.)	130	......
IRISH			Heiton Hldgs.	66xd	+10
Fund 11¼% 1988	£100¼	......	Irish Ropes	218	+25
Nat. 9¾% 84/89	£97½	+⅛	Unidare	390xd	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	40	NEI	13
Amstrad	19	Nat West Bk	65
BAT	62	P & O Dfd.	65
BOC Grp.	50	Plessey	20
BSR	17	Polly Peck	34
BTR	36	Racal Elect	32
Babcock	32	RHM	35
Barclays	52	Rank Org Ord	70
Beecham	52	Reed Intnl	50
Blue Circle	50	STC	30
Boots	30	Sears	16
Bowaters	50	TI	37
Brit Aerospace	50	TSB	12
Brit. Telecom	28	Tesco	18
Burton Ord	32	Thorn EMI	65
Cadburys	25	Trust Houses	25
Charter Cons.	45	Turner Newall	26
Comm Union	34	Unilever	62
Courtaulds	45	Vickers	20
FNFC	32	Wellcome	42
Gen Accident	95	**Property**	
GEC	22	Brit Land	30
Glaxo	200	Land Securities	50
Grand Met	50	MEPC	48
GUS 'A'	125	Peachey	40
Guardian	95	**Oils**	
GKN	38	Brit Petroleum	32
Hanson Tst.	17	Britoil	30
Hawker Sidd	58	Burmah Oil	52
ICI	125	Charterhall	10
Jaguar	52	Premier	11
Ladbroke	45	Shell	125
Legal & Gen	32	Tricentrol	11
Lex Service	45	Ultramar	26
Lloyds Bank	35	**Mines**	
Lucas Inds	75	Cons Gold	125
Marks & Spencer	22	Lonrho	28
Midland Bk	45	Rio T Zinc	100
Morgan Grenfell	55		

A selection of Options traded is given on the London Stock Exchange Report Page.

MANAGEMENT

How FII got in step with lasting technology

Alice Rawsthorn explains the growth of a British shoemaker

THE STORY OF a company using new technology to cut costs by reducing its workforce sounds all too familiar. By contrast the story of a company using new technology to create new jobs is rather less so.

Yet this is what the FII Group, the second largest footwear manufacturer in Britain, has achieved by using the improvements in productivity wrought by new technology to build its business and to increase its workforce.

Throughout the 1970s and 1980s, when so many British shoemakers were ravaged by the influx of imports, the FII Group pursued a policy of investment in automation. As its production process has become more automated and thus less labour-intensive the company has cut costs. But it has also used automation to diversify into new niches of the shoe market and to produce more intricate products at competitive prices.

WHEN MONTY Sumray took the decision to close his London shoe factories in the late 1970s it broke his heart. But, as he is the first to admit, it was the best thing that could have happened to his business.

"I love factories," he says. "When they were close at hand I could have happily spent all day wandering around them."

But pragmatism prevailed. Skill shortages and high labour costs forced the closure of the London factories.

With or without its London plants, the FII Group, which Sumray founded in the 1950s and now chairs, has thrived. It is now the second largest footwear manufacturer in Britain.

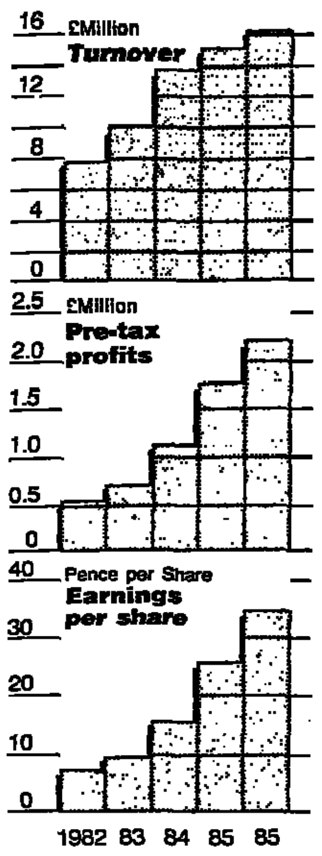
Monty Sumray has spent his whole working life in the footwear industry. His career began in the 1930s when, on leaaving school, he went to work for a shoemaker in the East End of London. After the war he set up in business on his own.

Originally the FII Group specialised in the manufacture of mule slippers and sandals. It grew rapidly during the 1960s and in 1974 bought Fiona Footwear, then an ailing shoe manufacturer in South Wales. Today it is the largest supplier of women's shoes to Marks and Spencer.

Monty Sumray is convinced that technology is the tool with which British manufacturers can become more competitive and win business back from imports.

Last year Fiona opened a £4.5m factory in South Wales - one of the most advanced in Europe. The group also acquired Lotus, one of the oldest established British shoemakers, which had fallen from grace in the past decade or so. Work has now begun on restoring the fortunes of Lotus and its brand name.

FII GROUP



Monty Sumray

The oldest established FII Group plant, the Fiona Footwear factory in South Wales, is a prime example of this policy. In the past five years Fiona, which manufactures shoes for Marks and Spencer and other multiples, has harnessed the benefits of new technology to double its turnover to £18.7m. It has also increased its workforce to 600 people by creating 170 new jobs in an area ravaged by the decline of its traditional coal and steel industries.

In the past decade imported shoes from Italy, Spain and latterly Brazil have flooded onto the British market. The influx of imports began in the 1950s, accelerated through the 1970s, and reached a peak of 61 per cent of all shoes sold in 1984. The British footwear industry was devastated. Companies closed and jobs were lost.

Some companies, like the FII Group, have survived. Yet the management is convinced that, without access to automation, the company's prospects would have been far from rosy.

New technology has benefited Fiona Footwear in the conventional way. By reducing the labour intensity of its production process it has made the factory more competitive. In the period in which Fiona's output has increased by 100 per cent, the number of people it employs has risen by just 40 per cent. Thus, in a sense, automation has "stolen" jobs within the factory.

This phenomenon is most marked in the assembly, or "lasting" process, where manpower has been radically reduced. Today seven people produce 100 dozen pairs of shoes in an eight hour shift. Five years ago it would have been 12.

Moreover, much of the work within lasting has been deskilled; this enables Fiona to deploy inexperienced workers for once complex tasks. One of the most skilled jobs in footwear production - the "roughing" of the sole of the shoe, so that adhesive can be stuck on - is now fully automated.

It is innovations such as these which have enabled Fiona to compete with imports in traditional cost areas. But it is the changes taking place within the stitching, or "closing" of the shoe which have allowed the factory to increase the value-added content of its products and thus to move into markets hitherto the preserve of overseas manufacturers with low labour costs.

Fiona now has four computer-controlled sewing machines. These create intricate decorative effects on shoes such as banding motifs and complex stitching patterns. Some of these effects could be replicated by highly skilled machinists, but given the length of time and standard of accuracy required it would not be cost effective. Other effects are so intricate that they could only be produced through automation.

Whereas decorative stitching was once highly skilled work, the computer-controlled machines are relatively simple to operate. Moreover, the latest computerised models are even faster and easier to programme than the originals.

The factory has used these facilities to move into new markets by broadening its product range to embrace more expensive shoes. Technology has thus enabled Fiona to open new markets, thereby increasing turnover and creating new jobs, even during a period of increased productivity.

In a labour intensive industry like shoe production, the introduction of automation represents a dramatic departure from past working practices and has demanded fundamental changes in the way factories like Fiona are structured and managed. Thus far the development of footwear technology has been a relatively slow process; but the pace of change is now quickening, presenting an even greater challenge to management.

One problem for a factory like Fiona is that it must now encourage its employees - many of whom have been in the same jobs for years - to move around within the plant to perform a variety of tasks in different parts of the production process. The fact that automation has deskilled many of the jobs within the plant eases this task, yet the management still faces the task of persuading the workers to adopt a more flexible approach to their jobs.

Training plays a crucial role in this. Given that South Wales is not a traditional shoemaking area, Fiona has never been able to call upon a pool of experienced labour. Thus there has always been a need for training facilities to cope with the constant flow of new workers, mostly school leavers, entering the plant.

In the stitching area, the most labour intensive part of the shoemaking process, a full-time training school working alongside the experienced machinists teaches ten new employees every two months. Within other areas of the factory, workers are trained to operate new machinery or to develop new skills, as their old jobs become redundant.

As the pace of automation accelerates - new facilities like computerised cutting and computer-aided design should come on stream within the next few years - the need for retraining will intensify. The factory will derive further benefits from falling costs and a more flexible production process. Its management also intends to diversify further into new niches of the footwear market by introducing yet more complex styles.

This task may be eased by the changes that automation is effecting within shoe retailing. Thanks to the introduction of electronic point of sale systems, retailers are now able to respond more swiftly to changes in consumer demand and thus require a speedier service from their suppliers.

This offers a real opportunity for the British industry to use new technology rapidly to change tack at retailers' behest and win back lost sales from its overseas competitors.

Analysing research

Where to draw the line

Michael Skapinker ponders training and management development

IF ANY COMPANIES have responded to the Handy and Constable reports on management development by committing themselves to specific levels of expenditure on training and education they should probably think again.

One distinctive feature of those British companies which take management development seriously is that they have only the vaguest notion of how much they spend on it.

This emerges from the information collected by one of the four working parties whose recently published research* formed the background to the Constable report.

The working party, headed by Professor Iain Mangham of Bath University's School of Management, spent its time looking for the good news. It conducted interviews with officials of ten British companies which were seen as leaders in the field of management development.

The 10 companies, covering a wide range of industrial and business sectors, were all relatively profitable or in the process of becoming so. Several of them had been through a painful period of restructuring.

The 10 were Shell UK, National Westminster Bank, Unilever, the Dixons Group, Coopers and Lybrand, FW Woolworth, BP, Courtaulds, British Airways and ICL.

Although all 10 devote substantial resources to management development, most could not say what their overall expenditure was. In many cases, this was because their staff have to maintain a high level of technical competence. The companies said that they found it difficult to separate expenditure on technical training from expenditure devoted to management development.

In other cases, responsibility for training had been pushed down into the companies' subsidiaries so that no overall figures were kept.

But the central reason for this gap in these successful organisations' knowledge is that for them management development extends beyond formal instruction to, for example, shuffling managers between sectors of the business or between countries.

"How the hell you measure on-the-job training I don't know because it must be one of the most significant, if not the greatest, training situation," a manager with Shell UK told the working party.

Another reason that the companies shy away from specific numbers is that it detracts from their emphasis on the quality of training. Cost on its own is not a reliable indicator, the working party concluded.

Before the major shake-up that has taken place at Woolworth in recent years, the company had a training department of 13 full-time trainers and a budget of over £5m. But "it was largely spent on charlatan consultants doing esotoric things - what they thought they ought to do because they'd read it somewhere," an official of the company said.

British Airways added that "for one American, you can probably get three UK consultants. There is a trade-off because people will listen to an American much more than they will listen to someone from the UK. And what the Americans bring to the programme is energy and commitment."

Several of the organisations used American consultants and academics to assist in their development programmes. The working party concluded that some of the Americans seemed "better able to breathe life and vitality into the process of training and developing managers than many of their UK counterparts".

The companies were not, however, as enthusiastic about that other US import, the Master of Business Administration degree. Some of the companies felt, predictably, that MBA degrees were too theoretical and not sufficiently focussed.

Others, like Unilever, worried that if you sent a manager to do an MBA, he or she would then leave for something better. Shell UK said, "we don't as a company employ many MBAs because we can't afford to mostly. We find that they go to the City at much higher rates."

There was one company that was enthusiastic about MBAs: Courtaulds, whose chairman, Sir Christopher Hogg, is himself a Harvard MBA.

The four working party reports are available from Karen Jones, BIM Management Information Centre, Cottingham Road, Corby, Northants NN17 1TT. £6 each for BIM members, £7.50 for non-members.

Business courses

Selecting sales and marketing staff, London. September 30. Fee: £140+VAT (non-members); £120+VAT (members) from IM Marketing Training, Moor Hall, Cookham, Maidenhead, Berks SL6 9QH. Tel: 06285 24922 ext 2229.

Strategic management for the 1990s, London. October 14. Fee: £172.50 (members and registered students);£195.50 (non-members). Details from Management and Professional Development, The Chartered Institute of Management Accountants, 63 Portland Place, London WIN 4AB.Tel: 01-637 2311. Telex: 25816 CIM A G.

Time management, London. October 14. Fee: £175. Details from Course Organiser (GM17), Management Development Centre, City University Business School, Frobisher Crescent,Barbican Centre, London EC2Y 8HB. Tel: 01-920 0111 ext 315. Fax: 01-588 2756.

Loans to companies - legal requirements, security and terms, London. October 22. Fee: £224.95. Details from Lisa Hamilton-Price, Legal Studies & Services, Bath House, 56 Holborn Viaduct, London EC1A 2EX. Tel: 01-236 4080. Telex: 888870.

Risk Management Planning and Systems, London. November 17. Fee: £255. + VAT. Details from Yvonne Modlin, International Business Communications, Bath House (3rd floor),56 Holborn Viaduct, London EC1A 2EX. Tel: 01-236 4080.Telex: 888870

Business intelligence: how to gain and retain a competitive advantage, London. January 14-15. Fee: £575. + VAT. Details from the Seminar Department, Frost and Sullivan, Sullivan House, 4 Grosvenor Gardens, London SW1W ODH.Tel: 01-730 3438. Telex: 261671.

Project management: the critical skills and techniques, London. November 23-25. Fee: £495 + VAT. Details from The Informatics Resource Centre, 2 The Chapel, Royal Victoria Patriotic Building, Fitzhugh Grove, London SW18 3SX. Tel: 01- 871 2546. Telex: 299180.

WORLD STOCK MARKETS

AUSTRIA

1987 High	Low	Sep. 4	Price Sch%
2410	1890	Creditanstalt	7120.00
3300	2460	Goesser	3100 00
13200	10,800	Interunfall	12300.00
14,000	7050	Jungbunzlauer	8580
2160	1740	Laenderbank	1900.00
780	565	Perlmooser	725.00
167	108	Steyr-Daimler	123.00
1113	690	Veitscher Mag	802.00

BELGIUM/LUXEMBOURG

1987 High	Low	Sep. 4	Price Frs.
3465	2900	B.B.L.	3330
16000	14850	Banque Gen. Du L.	14875
15200	14300	Bank Int. A	14300
13175	9000	Bekaert B	12050
6600	3900	Ciment CBR	6290
186	131	Cockerill	185
11875	—	Colruyt	11875
4700	2700	Delhaize	4700
5500	4685	EBES	5050
2700	1320	Fabrique Nat	1498
1440	926	GB Inno BM	1370
4525	3430	GBL (Brux) L	4320
6850	6080	Generale Bank	6480
9260	6000	Gevaert	8300
9100	6680	Hoboken	8490
4510	3765	Intercom	4090
4900	4040	Kredietbank	4640
13500	10,650	Pan Holdings	13400
14175	9210	Petrofina	13950
1870	1520	Raffinerie Tirle	1825
8000	5000	Royale Belge	6230
4195	3115	Soc Gen Belge	3850 00
16350	10375	Sofina	15100
15550	8270	Solvay	14700
550	185	Stanwick Intl.	550
8550	6280	Tractebel	8090
11950	8900	UCB	11100
6000	5160	Wagons Lits	5700

DENMARK

1987 High	Low	Sep. 4	Price Kr %
1140	720	Baltica Skand	1070.00
299	248	Cop Handelsbank	280.00
410	280	D. Sukkerfab	320.00
373	297	Den Danske Bank	373
228	160	East Asiatic	210.00
1000	805	Forenede Brygg	990
357	226	GNT Holding	245.00
880	695	I.S.S.B. Systems	840.00
575	455	Jyske Bank	530
298	221	Novo Inds.*	226.00
295	243	Privatbanken	283.00
1050	675	Sophus Berendsen	1000.00
254	149	Superfos	241.00

FINLAND

1987 High	Low	Sep. 4	Price Mks
260	148.5	Amer	248.5
56.45	43.75	KOP	54.05
254.5	184	Kone	242
118	85.05	Finnish Sugar	88.75
153	98	Kymmene	141
235	132.5	Nokia	233
117.5	69	Pohjola 'B'	112.5
37	19	Rauma-Repola	32
278	137.5	Stockmann 'B'	278
36.75	28.8	UBF 'C'	34.55
169.5	150	Utd. Paper	158
254.5	155.5	Wartsila (s11)	245.5

FRANCE

1987 High	Low	Sep. 4	Price Frs.
1985	1515	Emprunt 4½% '73	1890
9615	6600	Emprunt 7% 1973	9075
573	446	Accor	496.00
632.5	502.5	Agence Havas	581.00
768	660	Air Liquide	689
3005	2190	Alcatel	2474
868	666	BIC	775
619	518	BNP (Cert. Inv.)	545
3100	2380	Bongrain	3100
5220	990	Bouygues	1260
5400	4150	BSN Gervais	5400
3895	3080	Carrefour	3650
746	572	Club Mediterranee	660.00
1185	627	Cie Bancaire	778
407	320	Cofimeg	327
347	315	CGE	337.10
3300	2360	Damart	3250
545	379	Darty	509
1280	956	Dumez S.A.	1200
1543	1136	Eaux (Cie Gen)	1360
398	314	Elf-Aquitaine	375.00
4230	3219	Essilor	3860
1380	1059	Gen. Occidentale	1154
186.5	84.6	Imetal	186.50
1760	1326	Lafarge Coppee	1739
4053	3154	L'Oreal	4011
3100	2179	Legrand	3100.00
196.5	57	Maisons Phenix	65
2865	2045	Matra S.A.	2240
384	245	Michelin B.	357
1734	1187	Midi (Cie)	1330
2985	2200	Moet-Hennessy	2960
119	65	Moulinex	84
229	152.5	Nord Est	165.00
549	426	Paribas	438.50
1186	933	Pernod Ricard	1044.00
927	716	Perrier	911
558	400	Petroles Fra	444
1678	1132	Peugeot S.A.	1664
810	456	Printemps Au	731
1758	995	Radiotech	1730
3600	2475	Redoute	3375
1925	1401	Roussel-Uclaf	1539
499.9	390	St. Gobain	499.90
500	430	Sefimeg	430
1560	1140	Skis Rossignol	1210
3640	2850	Telemech Elect	3525
1745	1206	Thompson (CSF)	1368
710	502	Valeo	710.00

ITALY

1987 High	Low	Sep. 4	Price Lire
6950	2801	Banca Com'le	2905
715	406	Bastogi-IRBS	406
7155	5030	CIR	5200
3650	1752	Credito Italian	1800
17163	10270	Fiat	10290
141200	120525	Generali Assicur	123,400
113925	72000	Italcement	104,200
1340	960	La Rinascente	1025
2968	2140	Montedison	2335
14700	10840	Olivetti	11250
7840	5490	Pirelli Co	5664
5750	4110	Pirelli Spa	4110
4360	3240	Saipem	3250
4895	3130	Snia BPD	3130
35500	26655	Toro Assic	26655

GERMANY

1987 High	Low	August 14	Price Dm.
360.2	280	AEG	333
2220	1553	Allianz Vers	2023
343.3	239	BASF	335.80
364	274	Bayer	350
563	365	Bayer-Hypo	510
523	375	Bayer-Verein	480
543	390	BHF-Bank	479
787	455	BMW	770
366	270	Brown Boveri	334
312	244.5	Commerzbank	298.50
374	269	Cont'l Gummi	350
1220	920	Daimler-Benz	1071
579	420	Degussa	535
254	200	D'sche Babcock	224
790	571	Deutsche Bank	689.50
381	286	Dresdner Bank	358
350.5	268	Feldmuehle Nobel	325
586	458	Henkel	560
1110	612	Hochtief	699.50
344	240	Hoechst	322.70
137.9	88	Hoesch Werke	128.50
555	367	Holzmann (P)	425
293	201	Horten	235
690	507	Hussel	679
566	403	Karstadt	556
537.5	447	Kaufhof	503
200	142	KHD	186
163.5	130	Kloeckner Werke	143
795	589	Linde	753
215.5	122	Lufthansa	179
202	148	MAN	187.50
187.5	142	Mannesmann	166.50
1055.5	740	Mercedes Hld	943
395	250	Metallgesell	355
2700	1550	Muench Rueck	2100
866.5	687	Nixdorf	827
1025	815	Porsche	980
206	145	Preussag	195
266.5	186	Rhein West Elect	246
346	238	Rosenthal	279
691	524	Schering	600
747.5	620	Siemens	647.50
142	109	Thyssen	135.50
388	311	Varta	360
333	252	Veba	315
180	139.5	V.E.W.	173.50
486	375	Verein-West	459
430	312	Volkswagen	394.50

NETHERLANDS

1987 High	Low	Sep. 1	Price Fls.
66.8	55.5	ACF Holding	61.80
101.1	78	AEGON	86.30
112	91.2	Ahold	101.00
177.9	127.3	AKZO	171.00
53	44.4	ABN	48.50
75.4	58.2	AMEV	59.40
90.9	70	AMRO	86.40
65.3	48.2	Buehrmann-Tet	64.30
270	195.5	Dordtsche Petroleum	236.80
70	46	Elsevier Ndu	64.00
62	44	Fokker	56.30
53.5	39	Gist Brocades	46.40
198	145	Heineken	177.50
49.8	29.7	Hoogovens	47.60
65.2	48.4	Hunter Douglas	62.00
24	16.6	IHC Caland	21.80
71.5	59	Int Mueller	65.00
57.4	35.1	KLM	51.00
173.5	133.5	KNP	163.00
81.7	66	Nat Ned Cert	75.00
197	153	Ned Mid Bank	169.50
197	128.5	Ned Lloyd	179.50
476	380	Oce Grinten	449.00
41.6	34	Ommeren (Van)	35.60
88.9	60	Pakhoed	84.50
56.3	43	Phillips	51.90
116	94	Robeco	110.00
146.8	137.6	Rodamco	141.80
109.9	82.8	Rolinco	104.60
52.6	49.6	Rorento	51.90
297.2	207.8	Royal Dutch	264.00
692.3	134.1	Unilever	134.10
28	22.2	VMF Stork	22.20
97.5	68	VNU	92.50
97.5	73	Wessanen	88.20
140	106.5	Wolters Samsom	129.50

NORWAY

1987 High	Low	Sep. 4	Price Kroner
81	57	Aker-Norcem	81.00
218.5	169	Bergen bank	218.50
442	260	Bergesen B	385.00
233	176	Christiania Bk	230.00
208	148	Den Norsk Credit	185.50
153	86.5	Elkem	153.00
648	250	Hafslund	648.00
161	128.5	Kosmos	149.00
292	170	Kvaerner	292.00
280	204	Norsk Data	245.50
263	131	Norsk Hydro	251.50
4705	368	Orkla Borregaard	580.00
430	290	Storebrand	430.00

SPAIN

1987 High	Low	Sep. 4	Price Pts. %
1730	1275	Banco Bilbao	1730.00
1165	222	Banco Central	1090.00
650	385	Banco Exterior	465.00
709	450	Banco Hispano	644.00
1900	1395	Banco Popular	1805.00
1372	930	Banco Santander	1250.00
2001	1067	Banco de Vizcay	1940.00
1230	610	Banesto	1115.00
870	450	Dragados	805.00
113.2	52.2	Hidrola	102.70
169.2	84.2	Iberduero	139.50
749.5	375	Petroleos	730.00
253	146.5	Telefonica	221.20

SWEDEN

1987 High	Low	Sep. 4	Price Kroner
223	142	AGA (free)	219
345	261	Alfa-Laval	345
453	286	ASEA (Free)	443
290	257	Astra B (Free)	257
200	140	Atlas Copco	198
240	136	Beijer A Fria	213
360	143	Cardo (Free)	328
380	235	Cellulosa	338
331	274	Electrolux B	331
298	189	Ericsson	240
210	124	Esselte	210
448	210	Mo Och Domsjo	448
261	187	Pharmacia	237
279	208	Saab-Scania (free)	260
220	135	Sandvik	213
214	110	Skandia Ins.	210
309	229	Skandia Intl.	287
150	104	Skan Enskilda	150
397	310	SKF	365
411	269	St. Kopparbergs	395
545	380	Svka Handelsbn	540
116	82	Swedish Match	115
404	261	Volvo B (Free)	404

SWITZERLAND

1987 High	Low	Sep. 4	Price Frs.
13325	8,725	Adia Intl.	13150
910	430	Alusuisse	857
4140	2925	Bank Leu	4025
3150	1,570	Brown Boveri	2845
4040	2,920	Ciba Geigy	3850
2855	2,000	do. (PtCts)	2710
3,840	2900	Credit Suisse	3340
4150	3400	Elektrowatt	4150
1990	1370	Fischer (Geo.)	1675
152,000	111000	Hoff-Roche (Pt Cts)	152,000
15175	11,950	Hoff-Roche 1/10	15175
10100	7,900	Jacobs Suchard	10075
4,130	3275	Jelmoli	3925
1,880	1500	Landis & Gyr	1810
11450	8,625	Nestle	11450
1725	1,110	Oer-Buhrle	1635
2450	2,050	Pargesa Hldg	2415
460	389	Pirelli	438
15350	10,300	Sandoz (Br)	15250
2600	1,550	Sandoz (PtCts)	2400
890	590	Schindler (PtCts)	875
1,750	775	Sika	775
8,950	6010	Surveillance	6950
1490	1,080	Swissair	1415
572	421	Swiss Bank	506
20,300	15200	Swiss Reinsce	18300
2,788	1960	Swiss Volksbk	2310
6,120	4350	Union Bank	4925
7,500	5,800	Winterthur	6950
7,917	5875	Zurich Ins	7200

AUSTRALIA

1987 High	Low	Sep. 4	Price Aust$
4.65	2.55	ACI Int.	4.40
4	1.8	A.F.P.	4.00
14.5	7.9	Adelaide Steams	9.40
6.2	4.15	Amcor	5.94
5.4	2.8	ANZ Group	5.36
4	2.65	Ampol Pet	4.00
3.75	2.43	Ariadne Aust	2.98
4.7	2.7	Ashton	3.50
3.3	2.25	Aust Guarant	3.30
2.55	1.05	Aust Nat Inds	2.50
10.4	7.1	Bell Group	10.20
6.4	4.05	Bell Resources	5.40
2.95	1.67	Bond Corp Hldgs	2.68
6.88	4.35	Boral	6.50
5.7	3.1	B'ville Copper	5.00
12.2	6.95	Brambles Inds	12.10
1.95	0.85	Bridge Oil	1.60
10.55	7.75	BHP	10.15
1.9	1.2	BHP Gold	1.68
5.84	3.77	Burns Philp	5.70
11.6	6.4	CRA	10.25
4.35	3.56	CSR	4.22
5.8	2.55	Chase Corp	3.90
1.85	0.7	Claremont Petro	1.07
8.9	6	Coles Myer	8.90
5.5	2	Comalco "A"	4.80
0.74	0.16	Consolidated Pet	0.23
3.8	2.05	Costain Aust	3.40
5.9	4	Elders IXL	5.76
3	1.55	Energy Res	2.70
3.5	2.13	Gen Prop Trust	3.40
5	3.42	Goodman Fielder	5.00
4.7	2.8	Hardie (J.)	4.70
5.1	2.6	Hartogen Energy	3.10
5.6	2.7	ICI Aust	5.50
6.4	4.35	Industrial Equity	6.36
0.87	0.38	Jimberlana (50cFP)	0.76
14.06	10	Jones (David)	11.70
1.45	0.85	Kia Ora Gold	1.00
9.8	5.9	Kidston Gold	8.10
18.4	8.4	Lend Lease	17.60
3.75	1.45	MIM	3.62
6.54	3.9	Mayne Nickless	6.54
5.8	3.9	Nat. Aust. Bank	5.70
25	17	News	23.30
4.8	3.1	Noranda Pacific	4.25
4.48	1.91	North Bkn Hill	4.45
1.11	0.53	Oakbridge	0.54
5.9	3.5	Pacific Dunlop	5.66
4.5	2.68	Pancont'l	4.30
4.73	3.05	Pioneer Conc	4.65
4.75	2.1	Placer Pacific	4.10
7.4	2.7	Poseidon	7.00
1.7	0.98	Queensland Coal	1.55
7.8	3.85	Santos	7.20
5.5	4.18	Smith (H.)	5.00
89.92	3.16	Thos Natwide	6.22
8.5	5.75	Tooth	8.40
4.05	2.55	Vamgas	3.70
10	3.51	Western Mining	9.98
6.48	4.4	Westpac	6.46
2.68	1.55	Woodside Petrol	2.30
4.1	3.1	Woolworths	3.55
4.4	2.5	Wormald Intl	3.95

SINGAPORE

1987 High	Low	Sep. 4	Price $
2.42	1.25	Boustead Hldgs	1.93
8.45	4.25	Cerebos Pacific	7.15
5.85	3.5	Cold Storage	5.20
17	9.05	DBS	16.20
8.8	6.15	Genting	7.40
6.7	2.58	Haw Par Bros	6.30
5.05	2.71	Hong Leong Fin.	4.34
6.95	2.72	Inchcape Bhd	6.45
4.46	2.74	Keppel Shipyard	4.06
9.05	5.15	Malay Banking	7.60
3.02	1.16	Malayan Utd. Ind.	2.42
1.02	0.39	Multi Purpose	0.69
11.3	8.9	OCBC	10.30
6.3	3.22	OUB	5.45
3.28	1.17	Public Bank	2.68
3.9	1.93	Sime Darby	3.38
15	9.25	Singapore Air	14.30
10.9	7.6	Singapore Press	10.60
5.95	3.66	Straits Trading	5.75
4.88	2.82	Tat Lee Bank	4.32
8.05	4.18	UOB	7.65

SOUTH AFRICA

1987 High	Low	Sep. 4	Price Rand
4.2	2.6	Abercom	3.00
19.25	14.5	AE & CI	16.50
180	92	Allied Tech.	160
43	33	Anglo Am Coal	37.00
92.5	67	Anglo Am Corp	92
415	308	Anglo Am Gold	413
25	18.25	Barclays Bank	21.25
28.25	18.9	Barlow Rand	27
81.75	65	Buffels	80
6	2.9	CNA Gallo	5.85
7.4	5	Currie Finance	5.30
55	35.75	De Beers	52.75
95	66.5	Driefontein	95
63	48	Freegold	59.50
96.25	57	Gold Fields SA	95
7.8	4.9	Highveld Steel	7.70
27.75	17	Malbor Hldgs	27.75
8.55	6.2	Nedbank	7.55
20	13	OK Bazaars	18.75
15.5	10	Rembrandt	15
63	44.87	Rust Plat	59.25
35	17.5	Safren	33
20	10	Sage Holdings	17.25
25	15.3	SA Brewers	24.50
47	29.75	Smith (C.G.)	47
16.25	7.75	Tongaat Hulett	16.25

JAPAN

1987 High	Low	Sep. 6	Price Yen
4100	1890	Ajinomoto	3480
2170	1020	All Nippon Air	2050
2840	1520	Alps Electric	2350
1290	770	Asahi Chemicals	1200
2230	1310	Asahi Glass	2200
1900	1040	Bank Tokyo	1600
1240	602	Bridgestone	1160
708	545	Brother Inds	665
1220	691	Canon	1060
1410	861	Casio Computers	1280
2350	1340	Chugai Pharm	1950
1818	878	Daiei	1710
4160	1950	Dai Ichi Kan Bank	3260
895	603	Dai Nippon Ink	832
2400	1700	Dai Nippon Ptg	2080
2630	1760	Daiwa House	2200
3930	1750	Daiwa Sec	3140
2480	1710	Eisai	2270
6660	386	Fanuc	5950
4220	2860	Fuji Bank	3220
4970	2730	Fuji Film	4420
2470	1750	Fujisawa	2270
1400	700	Fujitsu	1250
2070	479	Furukawa Elect	900
3170	2230	Green Cross	2900
2230	1600	Heiwa Real Est	1980
1380	860	Hitachi	1200
2080	1500	Hitachi Credit	1650
1790	1140	Honda	1560
5400	2560	Indl Bank Japan	3920
769	406	Ishikawajima Ha	640
438	310	Isuzu Motors	425
1030	675	Itoh (C)	726
4300	3210	Ito Yokado	4050
16800	1200	JAL	15700
1780	1050	Jusco	1530
2130	1460	Kajima	1740
2240	1650	Kao Soap	2100
328	175	Kawasaki Steel	292
3090	1600	Kirin	2510
349	156	Kobe Steel	277
712	474	Komatsu	690
950	571	Konishiroku	835
678	348	Kubota	615
1340	998	Kumagai	1080
6680	3560	Kyoto Ceramic	5790
620	440	Marubeni	511
3610	2500	Marui	3320
452	330	Mazda Motors	450
1960	800	Meiji Seika	1110
2700	1460	MEI	2400
4200	2010	M'bishi Bank	3110
1270	731	M'bishi Chem	1130
1640	960	M'bishi Corp	1250
680	408	M'bishi Elec	611
3490	2380	M'bishi Estate	2520
662	430	MHI	600
3030	1310	Mitsui Bank	2610
939	530	Mitsui Co.	757
3100	1850	Mitsui Estate	2260
804	335	Mitsui Toatsu	726
1840	1020	Mitsukoshi	1700
1060	807	NGK Insulators	995
3120	1510	Nikko Sec	2340
1670	1050	Nippon Denso	1550
2200	1400	Nippon Elect	1930
1610	1040	Nippon Express	1190
1920	1270	Nippon Gakki	1800
1230	600	Nippon Kogaku	1120
367	230	Nippon Kokan	314
1510	1120	Nippon Oil	1360
659	439	Nippon Seiko	605
1470	1000	Nippon Shimpan	1250
398	171	Nippon Steel	338
679	460	Nippon Suisan	620
691	443	Nippon Yusen	580

HONG KONG

CANADA

TORONTO

Closing prices September 4

MONTREAL

Closing prices September 4

OVER-THE-COUNTER

Nasdaq national market, Closing prices September 4

Continued on Page 35

Indices

NEW YORK

DOW JONES

	Sept. 4	Sept. 3	Sept. 2	Sept. 1	1987 High	1987 Low	Since compilation High	Since compilation Low
♦Industrials	2561.38	2599.49	2602.04	2610.97	2722.42	1927.31	2722.42	41.22

	Sep. 4	Sep. 3	Sep. 2	Sep. 1
AUSTRALIA				
All Ord (1/1/80)	2194.9	2203.5	2179.6	
Metals & Minerals (1/1/80)	1391.2	1404.1	1369.5	

CANADA

NEW YORK ACTIVE STOCKS

Closing prices, September 4

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
37⅞	20⅝	AAR s	.50	1.4	23	56	35¼	34¾	34¾	-¼
52	22	ADT	.92	1.8	29	1455	51½	51⅛	51½	+⅛
31¼	16¾	AFG s	.16	.6	10	609	29½	29	28	-½
22⅝	8⅜	AGS s			18	381	20⅝	19⅝	19¾	-½
10⅞	6¾	AMCA				2	10	10	10	+⅛
5⅜	4⅞	AM Intl				639	7¾	7⅝	7⅝	-⅛
65½	50¼	AMR			12	7025	57	55⅞	55⅝	-1⅛
27½	24⅞	ANR pf 2.67		10.		3	25½	25½	25½	
12¼	8¼	ARX s			11	160	11⅜	11⅛	11¼	+⅛
73½	34⅜	ASA	2a	3.0		521	67⅜	66⅞	67⅜	
20	6¾	AVX	.32	1.9	34	65	17⅛	16⅞	17⅛	+⅛
67	41	AbtLab	1	1.6	24	2658	62	61⅜	61½	+⅜
28	24¼	Abitibi g				74	26¼	26⅛	26¼	+⅛
16¾	8¾	AcmeC .40		2.9	14	79	14¼	13¾	13¾	-1
10½	6⅞	AcmeE .32b		3.4	59	3	9½	9⅜	9½	+⅛
23⅞	19	AdaEx 3.42e		16		131	21¾	21⅜	21½	-¼
19½	11⅜	AcmM s .24		1.9	10	95	13	12⅝	12⅝	-⅜
23¾	12⅞	AdvSys .62t		2.3	17	261	26¾	25½	26½	-⅜
24½	12⅞	AMD				3123	20¾	20⅛	20¼	-⅛
11⅞	5¼	Adobe				75	10⅛	10	10	+¼
20½	14¾	Adob pf 1.84		9.3		11	20	19¾	19¾	-⅛
21⅞	17	Adob pf 2.40		11.		7	21½	21⅛	21½	+¼
15	10⅝	Advest .12a		1.1	9	187	11½	11¼	11⅜	-⅛
68¼	53	AetnLf 2.76		4.6	9	1407	60⅝	60½	60½	
83½	26½	AflPb s .32		.5	22	248	70¾	70	70¼	-¼
26⅞	18⅝	Ahmans .88		4.2	8	2555	21⅜	21	21⅛	-¼
5⅜	2⅞	Aileen				28	3¼	3¼	3¼	-⅛
53⅞	31¾	AirPrd	1	2.0	21	724	49¼	48¾	49⅛	+¼
36	17¾	AirbFrt .60		2.3	11	248	25¾	26	26⅛	-½
15	7⅝	Airgas n			21	43	12⅞	12¾	12⅞	
20⅜	16¼	AirIse n1.57e		9.0		18	17½	17½	17½	-⅛
15-32	¼	AlMoan				5	⅜	⅜	⅜	-1-
28	25⅜	AlaP pf1.84e		6.8		6	27	27	27	+¾
10¾	9⅛	AlaP dpf .87		9.6	197	9¼	d	9	9⅛	
106½	92¾	AlaP pf 9		9.8		z110	92¾	d92½	92½	-½
108	96	AlaP pf 9.44		9.7		z10	97	d97	97	-1½
104	87	AlaP pf 8.16		9.4		z100	87¾	d86½	86½	-⅞
99½	84	AlaP pf 8.28		9.8		z200	84½	84	84½	
27⅞	16⅞	AlskAir .16		.7	14	1217	21⅞	21⅜	21⅜	-½
28¼	13½	Alberto .24		1.0	21	47	25½	25¼	25¼	
24	13½	AlbCul .24		1.1	18	17	21¼	21	21	-⅛
65⅞	40¼	Albtsns .36		1.5	19	393	63¾	62½	63½	+⅝
37¼	18⅜	Alcan s .60		1.9	18	4241	31⅛	30¾	31	
30	18½	AlcoS s			18	408	25⅞	25¾	25¾	-⅛
42⅜	22⅝	AlexAlx 1		3.8	23	1209	27⅛	25⅝	25	+¼
50½	36¼	Alexdr			72	124	46⅝	46½	46½	-⅛
92½	48½	AllegCp				10	90	89¾	90	+¼
24¾	11⅜	AlgInt				472	15½	15⅛	15⅛	
20⅛	10¾	AlgIn pr				7	17¼	17¼	17¼	
34	28	AlgLudn.10e		.3		1223	29½	28⅝	28⅝	-⅝
51⅞	35¾	AllgPw 2.92		7.7	10	768	38⅛	37⅞	38	-¼
100	52	Allegis 1		1.0	32	3530	97⅞	97⅛	97⅜	-½
20⅝	14½	AllenG .56		3.6		260	16½	15¾	15¾	-¼
25	19⅝	Allen pf1.75		8.2		51	21⅜	21⅜	21⅜	+¼
44	25½	AlldPd			10	232	25¾	26	26	-¾
49¼	37⅝	AldSgnl .80		4.1	13	2540	44⅜	43½	43½	-⅞
3¾	2	vjAllisC				256	2¼	2⅛	2¼	+⅛
37½	13	AlisC pf				120	14½	14⅜	14⅜	-⅛
33⅜	23⅞	ALLTL s1.36		4.3	17	x155	31¾	31	31½	-⅛
64¾	32⅝	Alcoa 1.20		2.2		3099	55¼	55½	55¾	-⅛
32	27⅜	AmxG n.02e		.1		581	30⅛	29½	30⅛	+½
29¼	11⅝	Amax			23	2410	25½	24½	24½	-¾
45½	32½	Amax pf 3		6.7		1	45	45	45	
41⅞	18¾	AmHes .30e		.9	11	2499	36	34⅞	35	-⅞
180	91	AHes pf3.50		2.3		12	154¾	150¼	150¼	-4½
25¼	6⅜	ABrck s				445	24⅞	24½	24⅝	
60	40⅝	ABrnd s2.08		3.9	16	2617	55	52	52¾	-1¾
34⅞	31½	ABrd pf2.75		8.4		165	32¾	32⅝	32⅝	
118¾	83¼	ABrd pf2.67		2.4		1	110	110	110	-5
26⅝	21⅛	ABldM .90		3.6	18	7	25	24⅞	24⅞	
31½	23¼	ABusPr .80		2.7	18	8	29¾	29¾	29¾	
25⅝	20⅛	ACapBd 2.20		10.		99	21⅛	20½	21	+⅜
35⅝	30¼	ACapC6.02e		17.		25	30¼	d30	30	-¼

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NYSE COMPOSITE CLOSING PRICES

Continued from Page 34

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
84¼	56¾	ScottP	1.36	1.7	15	1024	81⅛	80¼	80⅝	−¼
15⅞	12	Scottys	.52	3.7	20	105	14⅝	14	14	−¼
13	10½	ScdNA n				88	12.	11⅞	12	+⅛
30½	72¾	SeaCnt 05p		.2	34	280	27	26⅜	26¾	+⅛
14¼	7¾	SeaCt pf1.46		11.		14	13⅞	13¾	13¾	−⅛
17½	10½	SeaC pfB2.10		13.		77	16½	16¼	16½	+⅛
17½	9¾	SeaC pfC2.10		13.		74	16⅝	16½	16⅝	
58	34½	SeaC pfD4.12		7.5		15	56	55	55	−¾
82⅜	37⅜	Seagrml.10		1.5	16	867	75¼	73⅞	74⅛	−½
24⅛	12½	Seagul			21	29	23⅝	23½	23⅝	+⅛
52¼	35½	SealAir	.52	1.1	20	254	48⅝	47¼	47¼	−1⅛
39⅝	23⅛	SealPwl.10		3.1	13	167	35¾	35¼	35¼	−⅛
59½	39	Sears	2	3.8	18	5476	53¾	52	52¼	−⅞

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
56¼	30¾	TycoLb	.48	.9	34	176	52⅝	51½	51¾	−¼
15¾	11⅛	Tyler	.40	2.7	26	160	14⅞	14⅞	14⅞	−⅛
U U U										
27⅞	17¼	UDC	2.20	12.	8	192	19⅛	18¾	19	+⅛
32	25½	UGI	2.04	7.2	11	98	29	28⅛	28½	+⅛
12⅝	6¼	UNCInc			17	1045	12¼	11⅜	11⅝	−½
31⅞	20⅝	UNUM n.30e		1.2		519	25⅝	24¾	25⅛	
21⅞	14⅝	URS	.96t	5.0	18	123	19½	19⅜	19⅜	−⅛
48¾	36¼	USFG	2.48	6.1	9	1510	41¾	40¾	40⅞	−⅝
62	50½	USFG pf4.10		7.6		44	54⅝	54	54⅛	−½
47⅞	31	USG	1.12	2.4	11	2135	47⅛	45	45⅞	−1⅛
29¼	20½	USLICO88		3.4	11	16	26	26	26	

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
X Y Z										
85	51	Xerox	3	3.9	17	2622	79	76⅝	78¾	−1¾
58¼	53⅞	Xerox pf5.45		10.		67	54	d53¾	53⅞	
31½	21½	XTRA	.64	2.2	24	82	29⅞	29⅜	29½	−¼
27⅞	25⅝	XTRA pf1.94		7.1		20	27½	27½	27½	+¼
31¾	15	Yorkin			15	259	30⅞	30⅛	30⅜	−¼
7¼	2¼	Zapata				308	5⅝	5½	5⅝	+⅛
32⅞	20¾	Zayre	.40	1.4	10	2561	29¼	28¼	28⅜	−⅜
14¾	9⅜	Zemex	.40	3.3	6	7	12⅜	12¼	12¼	
33⅝	18⅞	ZenithE			120	2536	30⅝	28¾	30	−¼
13½	6¼	ZenLab				1243	7¾	7	7⅜	+⅝
28	18¾	ZenNtl	.80	3.7	13	47	22¼	21⅞	21⅞	−⅛
20⅜	12⅜	Zero	.36	1.9	19	100	19	18⅝	19	+¼
30¾	17½	Zurnla s	.68	2.5	18	x900	27¼	25⅞	27⅛	−¾
10⅜	8¾	Zweig n.65e		6.4		1144	10⅛	10	10⅛	+⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in-full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices, September 4

[illegible]

OVER-THE-COUNTER

Nasdaq national market, Closing prices, September 4

[illegible]

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CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Future for the dollar looks bleak indeed

By Colin Millham

TWO IMPORTANT events for the dollar take place this week, but whatever the result it is hard to see any fundamental improvement, after Friday's rise in US interest rates failed to move the market.

The first event is tomorrow's return of the US Congress after the summer recess, and the second is Friday's US trade figures for July.

Congress was unhappy about the US trade deficit before the recess, and that was before the very large June deficit of $15.71bn was announced.

If the forecasters are right the protectionist lobby is likely to be given more ammunition by the July figure. Estimates of the shortfall are around $15bn to $16bn.

A survey by Money Market Services comes out with a median of $15bn. Morgan Grenfell agrees with this figure, while MMS itself and Nomura Research Institute in London go for $16bn. Stockbroker, James Capel forecasts a deficit of $15.5bn.

The aggregate deficit for the first half of the year was $78.3bn, according to the latest figures, and the situation is not expected to improve dramatically, in spite of two years of steady dollar depreciation. A July deficit of $15.5bn will push the cumulative shortfall so far this year to $97.4bn, against $94.7bn in the same period of 1986.

Mr Preston Martin, former vice charman of the US Federal Reserve Board, warned last weeke that the total shortfall for 1987 could exceed last year's record $156.6bn.

The Democrat dominated Congress may soon find itself at odds with President Reagan by passing a protectionist trade bill the President will feel forced t veto. The only alternative to legislation limiting the level of US imports will be yet another downward adjustment of the dollar.

On Friday the US Federal Reserve raised its discount rate to 6 per cent from 5¼ per cent, the first change since a cut on August 21, and the first increase since April 1984. Shortly after this move, major US banks lifted their prime lending rates t 8¾ per cent from 8¼ per cent, but there was no strong impact on the dollar.

Japanese officials generally tried to talk the market into more stability last week, but the main factor preventing the dollar falling below Y141 was fear that other Japanese companies could find themslves in a similar situation to Tateho Chemical Industries, with extremely large losses on Government bond trading.

Morgan Grenfell says the latest slump in the dollar marks the end to the period of dollar stability, and that renewed trade frictions should lead to further declines.

The bank forecasts the dollar will be down to DM 1.75 and Y135 by the end of the year. Lloyds Bank is even more pessimistic, expecting rates of DM 1.65 and Y130 by the end of 1987.

Morgan Grenfell adds that the dollar will only reach a sustainable level when there is a US trade surplus, and that the longer it takes the lower is the dollar's equilibrium level. Capital flows are expected to become much less of a support for the dollar.

A better trade position will be offset by a deteriorating invisibles balance, and according to Morgan Grenfell the US current account deficit will still be above $100bn by 1990.

Against this background the future for the dollar looks bleak indeed.

£ IN NEW YORK

Sept. 4	Latest	Previous Close
£ Spot	1.6545-1.6555	1.6575-1.6585
1 month	0.37-0.35cpm	0.38-0.37pm
3 months	1.14-1.09pm	1.14-1.11pm
12 months	3.25-3.15pm	3.40-3.30pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

	Sept. 4	Previous
8.30 am	73.1	73.0
9.00 am	73.1	73.0
10.00 am	73.2	73.0
11.00 am	73.1	73.0
Noon	73.1	73.0
1.00 pm	73.1	73.0
2.00 pm	73.0	73.0
3.00 pm	73.1	73.0
4.00 pm	73.0	73.1

CURRENCY RATES

Sept. 4	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.784928	0.697439
U.S. Dollar	5.5	1.29882	1.15391
Canadian $	8.75	*	1.151751
Austrian Sch.	4	16.4054	14.5751
Belgian Franc	7¼	48.4655	43.0640
Danish Krone	7	8.99695	7.99258
Deutsche Mark	3.0	2.33229	2.07220
Neth. Guilder	4½	2.62686	2.33321
French Franc	9½	7.80591	6.93502
Italian Lira	12	NA	1501.24
Japanese Yen	2½	183.328	163.336
Norway Krone	8	8.56702	7.61179
Spanish Peseta	—	156.734	139.277
Swedish Krona	7½	8.22543	7.31119
Swiss Franc	3.5	NA	1.71529
Greek Drach.	20½	178.036	158.075
Irish Punt	—	NA	0.778619

*C$/SDR rate for Sept. 3; 1.70475

CURRENCY MOVEMENTS

Sept. 4	Bank of England Index	Morgan Guaranty Changes %
Sterling	73.0	−20.5
U.S. Dollar	100.3	−6.7
Canadian Dollar	78.4	−9.8
Austrian Schilling	138.0	+10.2
Belgian Franc	100.0	−4.6
Danish Krone	91.1	+1.1
Deutsche Mark	147.2	+21.8
Swiss Franc	173.3	+22.0
Guilder	135.4	+14.5
French Franc	71.5	−13.1
Lira	47.2	−18.3
Yen	223.7	+66.7

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100).

OTHER CURRENCIES

September 4	£	$
Argentina	3.8005-3.8180	2.2980-2.3070
Australia	2.2825-2.2855	1.3815-1.3825
Brazil	80.2505-80.6995	48.5190-48.7610
Finland	7.2095-7.2220	4.3650-4.3680
Greece	225.25-228.85	136.10-138.30
Hong Kong	12.7850-12.8740	7.7990-7.8010
Iran	116.75*	70.90*
Korea(Sth)	1331.65-1343.70	803.50-810.10
Kuwait	0.4615-0.4625	0.2795-0.2800
Luxembourg	61.75-61.85	37.30-37.40
Malaysia	4.1300-4.1600	2.5090-2.5110
Mexico	2481.90-2496.20	1500.00-1508.00
N. Zealand	2.6490-2.6540	1.6035-1.6050
Saudi Ar.	6.1895-6.1950	3.7500-3.7510
Singapore	3.4540-3.4820	2.0920-2.0940
S. Af. (Cm)	3.3370-3.3525	2.0285-2.0345
S. Af. (Fn)	5.4725-5.6595	3.3055-3.4185
Taiwan	49.75-50.00	30.05-30.15
U.A.E.	6.0595-6.0650	3.6725-3.6735

*Selling rate.

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.6540	1.6503	1.6425	1.6341	1.6212
D-mark	2.9725	2.9578	2.9272	2.8873	2.8088
French Fr	9.9375	9.9199	9.8833	9.8690	9.8416
Swiss Fr.	2.46	2.4471	2.4206	2.3851	2.3128
Yen	234.50	233.35	230.98	227.70	221.43

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Sept 4	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.0640	+1.43	+0.75	±1.5344
Danish Krone	7.85212	7.99258	+1.79	+1.11	±1.6404
German D-Mark	2.05853	2.07220	+0.66	−0.02	±1.0981
French Franc	6.90403	6.93502	+0.45	−0.23	±1.3674
Dutch Guilder	2.31943	2.33321	+0.59	−0.09	±1.5012
Irish Punt	0.768411	0.773619	+1.33	+0.65	±1.6684
Italian Lira	1,483.58	1,501.24	+1.19	+1.11	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

Sept. 4	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.654	2.973	234.5	9.938	2.460	3.343	2152.	2.173	61.80
$	0.605	1.	1.796	141.7	6.008	1.487	2.021	1301.	1.313	37.35
DM	0.336	0.556	1.	78.89	3.343	0.828	1.124	724.0	0.731	20.79
YEN	4.264	7.053	12.68	1000.	42.38	10.49	14.25	9177.	9.264	263.5
F Fr.	1.006	1.664	2.991	236.0	10.	2.475	3.364	2166.	2.186	62.19
S Fr.	0.407	0.672	1.208	95.33	4.040	1.	1.359	874.8	0.883	25.12
H Fl.	0.299	0.495	0.889	70.16	2.973	0.736	1.	643.8	0.650	18.49
Lira	0.465	0.769	1.381	109.0	4.618	1.143	1.553	1000.	1.010	28.72
C $	0.460	0.761	1.368	107.9	4.574	1.132	1.539	990.6	1.	28.45
B Fr.	1.618	2.676	4.810	379.4	16.09	3.981	5.409	3482.	3.515	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

EURO-CURRENCY INTEREST RATES

Sept. 4	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	9¾-9⅝	9⅞-9⅝	9¹³⁄₁₆-9⅞	10³⁄₁₆-10¹⁄₁₆	10½-10⅜	10¹¹⁄₁₆-10⁹⁄₁₆
U.S. Dollar	6¹³⁄₁₆-6¹¹⁄₁₆	6¹³⁄₁₆-6¹¹⁄₁₆	7¼-7⅛	7⁵⁄₁₆-7³⁄₁₆	7¹³⁄₁₆-7¹¹⁄₁₆	8⅜-8¼
Can. Dollar	8⅓-8⅛	8⅞-8⅝	9-8¾	9⁵⁄₁₆-8¹³⁄₁₆	9¹¹⁄₁₆-9⁷⁄₁₆	10-9¾
D. Guilder	5⅛-5	5⁵⁄₁₆-5³⁄₁₆	5¼-5⅛	5⅝-5¼	5½-5⅜	5⅞-5¾
Sw. Franc	1½-1¼	1⅝-1⅜	3¹¹⁄₁₆-3⁹⁄₁₆	3⅝-3½	4¼-3¹⁵⁄₁₆	4⅛-3¹⁵⁄₁₆
Deutschmark	3¾-3⅝	3¹³⁄₁₆-3¹¹⁄₁₆	4-3⅞	4-3⅞	4⅜-4¼	4½-4⅜
Fr. Franc	7⁵⁄₁₆-7³⁄₁₆	7⁵⁄₁₆-7³⁄₁₆	7¹³⁄₁₆-7¹¹⁄₁₆	8⅛-8	8¹³⁄₁₆-8¹¹⁄₁₆	9¼-9⅛
Italian Lire	12-10	15-11½	13¼-12⅝	13¼-12¾	13¼-12⅞	13⅞-13
B. Fr. (Fin.)	—	6⁵⁄₁₆-6³⁄₁₆	6⁵⁄₁₆-5⁷⁄₁₆	6¼-6⅛	7⁵⁄₁₆-7³⁄₁₆	7⅞-7¾
B. Fr. (Con.)	—	6⅛-5⅞	6⅝-6¼	6⅞-6½	7⁵⁄₁₆-6¹⁵⁄₁₆	7⅞-7¾
Yen	—	3¹¹⁄₁₆-3⁹⁄₁₆	4⅛-4	4⁵⁄₁₆-4⅛	4⁵⁄₁₆-4¼	4½-4⅜
D. Krone	—	9⅞-9½	10⅛-10	10¼-10⅛	11-10⅝	11¼-10⅞
Asian $Sing	N/A	6⅞-6¾	7¼-7⅛	7⅜-7¼	7¾-7⅝	8⁵⁄₁₆-8³⁄₁₆

Long-term Eurodollars: Two years 9-8¾ per cent; three years 9⅛-9⅞ per cent; four years 9⅞-9⅝ per cent; five years 9⅞-9⅝ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT—FORWARD AGAINST THE POUND

Sept 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6480-1.6575	1.6535-1.6545	0.39-0.36 cpm	2.72	1.18-1.13 pm	2.79
Canada	2.1706-2.1800	2.1720-2.1730	0.22-0.13 c pm	0.97	0.62-0.50 pm	1.03
Netherlands	3.34-3.35¼	3.33¾-3.34¾	1⅛-1⅛ c pm	4.50	4⅛-3¾ pm	4.72
Belgium	61.52-61.97	61.75-61.85	22-15 c pm	3.60	58-47 pm	3.40
Denmark	11.42¾-11.47½	11.45-11.46	¼pm-½ dis	−0.39	½-1⅛ ore dis	−0.33
Ireland	1.1140-1.1200	1.1145-1.1155	0.07-0.01 c pm	0.43	0.22-0.05 pm	0.48
W. Germany	2.96¼-2.97¼	2.96¼-2.97¼	1⅝-1⅜ pf pm	6.06	4⅝-4¼ pm	5.97
Portugal	233.83-235.15	233.83-234.80	69-123 c dis	−4.92	251-342 dis	−5.06
Spain	199.13-200.13	199.13-199.58	86-118 c dis	−6.14	197-246 dis	−4.44
Italy	2148½-2158¾	2151½-2152½	3-7 lire dis	−2.79	13-17 dis	−2.79
Norway	10.89-10.94¼	10.92-10.93	3⅜-4 ore dis	−4.05	10-10¾ dis	−3.80
France	9.91½-9.94¼	9.93¼-9.94¼	2-1½ c pm	2.11	5¼-4⅜ pm	1.94
Sweden	10.46¼-10.51¼	10.48½-10.49½	1-½ ore pm	0.86	2½-1¼ pm	0.81
Japan	234-235	234-235	1¼-1 y pm	5.76	3⅝-3⅜ pm	5.97
Austria	20.87-20.99	20.87-20.90	10¼-9⅛ gro pm	5.57	30⅜-28 pm	5.59
Switzerland	2.45½-2.46½	2.45½-2.46½	1⅜-1⅛ c pm	6.10	4-3¾ pm	6.30

Belgian rate is for convertible francs. Financial franc 62.05-62.15. Six-month forward dollar 2.02-1.97 c pm. 12-month 3.33-3.23 pm.

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

Sept. 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6480-1.6575	1.6535-1.6545	0.39-0.36c pm	2.72	1.18-1.13pm	2.79
Ireland†	1.4755-1.4850	1.4825-1.4835	0.25-0.20c pm	1.82	0.84-0.74 pm	2.13
Canada	1.3135-1.3160	1.3145-1.3155	0.19-0.22c dis	−1.87	0.59-0.62 dis	−1.84
Netherlands	2.0165-2.0295	2.0205-2.0215	0.35-0.32c pm	1.99	1.01-0.97pm	1.96
Belgium	37.24-37.45	37.30-37.40	4.00-1.00c pm	0.80	9.00-4.00pm	0.70
Denmark	6.90¾-6.94½	6.92¼-6.92¾	0.90-1.60ore dis	−2.17	3.90-4.60 dis	−2.45
W. Germany	1.7900-1.8025	1.7945-1.7955	0.50-0.47pf pm	3.24	1.50-1.45pm	3.29
Portugal	141¼-141¾	141¼-141½	50-150c dis	−8.47	225-425 dis	−9.17
Spain	120.30-121.00	120.60-120.70	90-120c dis	−10.43	220-260 dis	−7.95
Italy	1298-1306	1300¾-1301¼	5.50-6.50lire dis	−5.54	17.50-19.00dis	−5.61
Norway	6.58¾-6.61¾	6.60¼-6.60¾	3.50-3.85ore dis	6.69	10.60-11.00dis	−6.55
France	5.99½-6.03	6.00½-6.01	0.25-0.35c dis	−0.60	1.05-1.35 dis	−0.80
Sweden	6.32¾-6.35½	6.34-6.34½	0.85-1.15ore dis	−1.89	2.85-3.25 dis	−1.93
Japan	141.30-142.15	141.65-141.75	0.39-0.36y pm	3.18	1.17-1.12 pm	3.23
Austria	12.60¾-12.68¾	12.61¾-12.62¼	3.50-2.50gro pm	2.85	10.00-8.00pm	2.85
Switzerland	1.4815-1.4925	1.4865-1.4875	0.47-0.42c pm	3.59	1.38-1.33 pm	3.64

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 37.50-37.60

Correction for Sept. 3:—Japan close 140.95-141.05

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Dec	Calls—Last March	Puts—Last Dec	Puts—Last March
108	7.27	8.00	0.23	0.54
110	5.46	6.31	0.42	1.21
112	4.08	5.08	1.04	1.62
114	2.54	3.61	1.50	2.51
116	1.54	2.62	2.50	3.52
118	1.09	2.10	4.05	5.00
120	0.42	1.34	5.38	6.29
122	0.23	1.04	7.19	7.58

Estimated volume total, Calls 2,208 Puts 808
Previous day's open int: Calls 17,821 Puts 11,847

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Dec	Calls—Last March	Puts—Last Dec	Puts—Last March
80	4.52	4.49	0.44	1.33
82	3.26	3.35	1.18	2.19
84	2.11	2.36	2.03	3.20
86	1.12	1.50	3.04	4.34
88	0.41	1.12	4.33	5.60
90	0.20	0.49	6.12	7.33
92	0.09	0.31	8.01	9.15
94	0.04	0.19	9.60	11.03

Estimated volume total, Calls 30 Puts 50
Previous day's open int: Calls 354 Puts 319

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls—Last Sept.	Calls—Last Oct.	Puts—Last Sept.	Puts—Last Oct.
23000	3.95	9.21	5.45	6.06
23250	2.95	7.90	6.95	7.25
23500	2.15	6.72	8.65	8.57
23750	1.53	5.67	10.53	10.02
24000	1.06	4.75	12.56	11.60
24250	0.72	3.94	14.72	13.29
24500	0.47	3.24	16.97	15.09
24750	0.32	2.65	19.30	17.00

Estimated volume total, Calls 224 Puts 13
Previous day's open int: Calls 308 Puts 218

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls—Last Sept.	Dec.	Mar.	June	Puts—Last Sept.	Dec.	Mar.
1.45	20.45	20.45	20.45	20.45	0.00	0.00	[illegible]
1.50	15.45	15.45	15.45	15.45	0.00	0.00	[illegible]
1.55	10.45	10.45	10.45	10.45	0.00	0.07	[illegible]
1.60	5.45	5.45	5.63	5.90	0.01	0.54	[illegible]
1.65	1.10	2.15	2.60	3.05	0.76	2.24	[illegible]
1.70	0.02	0.55	0.92	1.33	4.68	5.64	[illegible]
1.75	0.00	0.09	0.25	0.48	9.66	10.18	[illegible]

Estimated volume total, Calls 24. Puts 0
Previous day's open int. Calls 277 Puts 1629

PHILADELPHIA SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls—Last Sept.	Oct.	Nov.	Dec.	Puts—Last Sept.	Oct.
1.500	15.05	15.05	15.05	15.05	—	—
1.525	12.55	12.55	12.55	12.55	—	—
1.550	10.05	10.05	10.05	10.05	—	0.05
1.575	7.65	7.65	7.65	7.75	—	0.20
1.600	5.15	5.35	5.55	5.75	-	0.45
1.625	2.65	3.40	3.85	4.20	0.10	1.00
1.650	0.85	1.90	2.40	2.80	0.60	2.00

Previous day's open int: Calls 154,150 Puts 144,924
Previous day's volume: Calls 4,701 Puts 1,610

LONDON

20-YEAR 12% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev.
Sept.	114.30	115.17	114.25	115.14
Dec.	115.02	115.26	114.25	115.18
March	115.05	—	—	115.21

Estimated volume 22,993 (27,813)
Previous day's open int. 31,850 (32,235)

6% NOTIONAL LONG TERM JAPANESE GOVT BOND Y100m 100ths of 100%

	Close	High	Low	Prev.
Sept.	102.15	102.65	102.15	103.23
Dec.	101.50	102.05	101.48	102.66

Estimated Volume 1176(337)
Previous day's open int. 489 (516)

THREE-MONTH STERLING
£500,000 points of 100%

	Close	High	Low	Prev.
Sept.	89.60	89.67	89.60	89.67
Dec.	89.50	89.59	89.48	89.59
March	89.55	89.63	89.53	89.65
June	89.54	89.60	89.53	89.65
Sept.	89.43	—	—	89.54
Dec.	89.39	—	—	89.50

Estimated Volume 4,799 (5,444)
Previous day's open int. 17035 (16,953)

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev.
Sept.	228.50	230.00	227.10	226.60
Dec.	233.15	233.50	232.10	231.25

Estimated volume 2,091 (1558)
Previous day's open int. 6797 (6,907)

THREE-MONTH EURODOLLAR
$1m points of 100%

	Close	High	Low	Prev.
Sept.	92.51	92.65	92.51	92.60
Dec.	91.74	91.94	91.69	91.84
March	91.35	91.56	91.30	91.45
June	91.08	91.28	91.22	91.18
Sept.	90.86	91.02	90.84	91.96
Dec.	90.68	—	—	90.78
Mar.	90.51	—	—	90.61
June	90.35	—	—	90.45

Estimated volume 10,524(9,688)
Previous day's open int. 34,193 (33,763)

U.S. TREASURY BONDS 8%
$100,000 32nds of 100%

	Close	High	Low	Prev.
Sept.	85-02	85-21	84-22	84-31
Dec.	84-04	84-25	83-20	84-02
Mar.	83-08	—	—	83-06

Estimated Volume 10,519 (11,088)
Previous day's open int. 5,401 (5,474)

CURRENCY FUTURES

POUND—$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6530	1.6493	1.6415	1.6331	1.6202

IMM—STERLING $s per £

	Close	High	Low	Prev
Sep.	1.6515	1.6570	1.6470	1.6550
Dec.	1.6410	1.6470	1.6355	1.6445
Mar.	1.6325	1.6360	1.6290	1.6360
June	1.6225	1.6310	1.6210	1.6260

LIFFE—STERLING £25,000 $ per £

	Close	High	Low	Prev
Sept.	1.6534	1.6508	1.6508	1.6559
Dec.	1.6423	1.6442	1.6400	1.6452
Mar.	1.6340	—	—	1.6365

Estimated volume 50 (120)
Previous day's open int. 924 (887)

CHICAGO

MONEY MARKETS

Interest rate differentials narrow

NARROWING INTEREST rate differentials between London and New York began to worry dealers at the end of last week, after the US Federal Reserve raised its discount rate and commercial banks increased their prime rates.

Yields on long term gilts were around 10 per cent and US bonds about 9½ per cent, leading to suggestions that this situation is unlikely to be sustainable unless there are some very good UK money supply and bank lending figures for August on September 18.

An improvement is expected. James Capel forecasts a rise of £2.75bn in bank lending, and Morgan Grenfell suggests £1.9bn, compared with a surprisingly large £4.9bn in July.

London money market rates showed no lasting adverse reaction to a disappointing UK trade and current deficit for July or to a surprising fall of $475m in August, UK official reserves indicating the Bank of England had given more support to the pound than expected.

UK clearing bank base lending rate 10 per cent since August 7

The main factors behind the gradual slide in London money market rates were: the assurance of Mr Nigel Lawson, Chancellor of the Exchequer, that last month's rise of 1 per cent in bank base rates was sufficient and had been vindicated by subsequent news on the economy, and the continuing loss of confidence in the dollar. The increase in US interest rates had no impact in London.

On Friday the UK retail prices index for August will be published. A monthly rise of 0.2 per cent is generally expected.

FT LONDON INTERBANK FIXING

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day.

MONEY RATES

NEW YORK (4 pm)

		Treasury Bills and Bonds			
Prime rate	8¾-8¼	One month	(—)	Three year	8.56
		Two month	(—)	Four year	8.69
		Three month	6.55	Five year	8.85

BANK OF ENGLAND TREASURY BILL TENDER

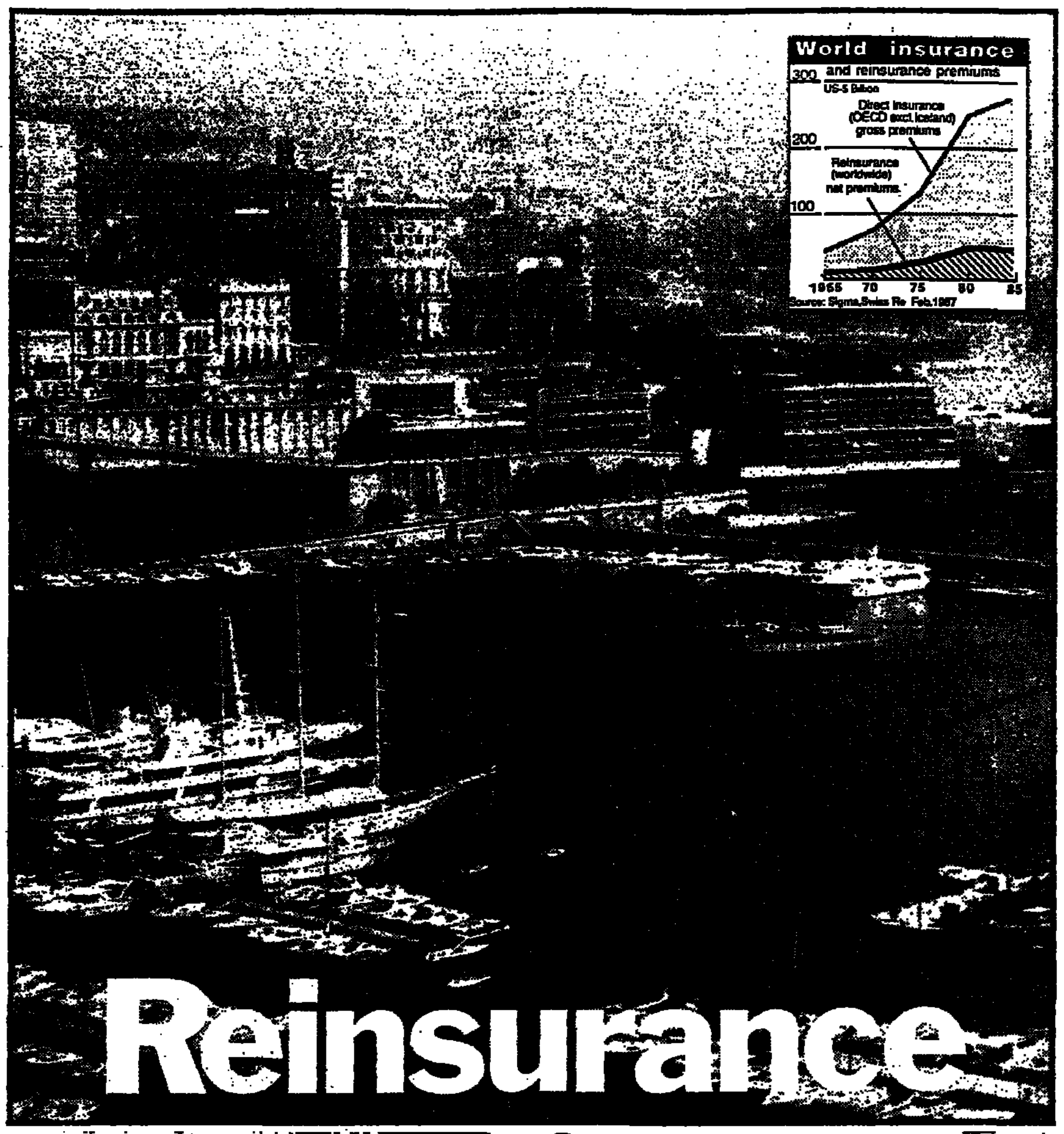
WEEKLY CHANGE IN WORLD INTEREST RATES

LONDON MONEY RATES

SECTION III

FINANCIAL TIMES SURVEY

The strength of its recent recovery has still left nagging questions about the industry's underlying financial health. The signs are that the next downturn is coming more quickly than many expected, but that it will not be as harsh as in the mid-1980s, writes Nick Bunker, as the world's reinsurers gather in Monte Carlo.



Reinsurance

Monte Carlo: deals made there today will be consummated at the end of the year Ashley Ashwood

Contents

Recovery sets new queries

AS THE leaders of the world's $50bn reinsurance industry gather today in Monte Carlo for one of the most important events in their working year, they stand at what may be another turning point in their cyclical fortunes.

After three years of recovery in the industry's operations, Mr Jim Payne, chairman of E W Payne, the world's second biggest reinsurance broker, puts the situation neatly. "It's a very confusing scenario," he says. "It's like being at the point in a river estuary where all the waters meet."

The reinsurance industry's state of health matters far beyond the hotels and restaurants of Monaco, the venue this week for the 31st annual *Rendez-Vous de Septembre*. At the Rendez-vous, brokers and reinsurers meet to start making deals which will be consummated at the end of the year when most reinsurance contracts come up for renewal.

Since the 1960s, their industry has usually accounted for a premium figure about one-seventh the size of the world's non-life insurance revenues - which, in 1985, were about $340bn.

By accepting a share in the insurance business written by primary insurance companies, reinsurers provide a mechanism for spreading the world's biggest risks.

They also exercise an important influence on domestic insurance markets, since the easy availability of reinsurance can depress the prices charged by primary carriers. A shortage of capacity, on the other hand, can help force prices up to ordinary customers in the primary market.

Last year was the great recovery year for profits in the US property/casualty insurance industry - the place where the big money is made and lost - and the reinsurance community did not miss out.

Steep premium rate increases and a shortage of risk-taking capacity have helped reinsurers to climb out of the deep trough that the industry dug for itself in the early to mid-1980s after a six-year price war caused by over-capacity and reckless underwriting.

One measure of that recovery appeared this June. A survey of 73 US companies, by the Reinsurance Association of America, showed that they were almost making a pure underwriting profit, even before allowing for their investment earnings.

Claims and expenses totalled only 100.8 per cent of their premium income. It was a far cry from the troubled days of 1984, when the RAA reported an average of 128 per cent among the companies it monitored, or 1985, when the figure was 121.

Yet the very strength of the recovery has brought questions in its wake, and left more observers than just Mr Payne with a list of questions to be answered and problems to be solved.

First, how long will the recovery last - and how solid is the industry's underlying financial health?

As rate increases decelerate, or turn into actual reductions, in the US and other primary markets, so primary insurers will seek to buy more reinsurance as a way of protecting their profits.

Mr Dewey Clark, vice-president international of the Prudential Re of New Jersey, put it this way at Britain's Reinsurance Offices Association (ROA) conference in April:

"The insurer is going to be looking somewhere to improve results, and I think they are going to be looking very much to us in next year's negotiations. There is going to be a very difficult year from pressure from the insurers."

There are other questions. Did some reinsurers take such tough remedial measures in the years 1984-7 that they have stopped being in the risk business at all?

That is a charge levelled by some London primary insurers, especially at Lloyd's, against the powerful German reinsurers. The Munich Re is sometimes singled out, because of its resistance to taking US casualty or international professional indemnity business, the sources of some of the worst losses in the mid-1980s.

Some players are also asking whether there are steps that can be taken - by agreeing new codes of practice, by using new information technology, or by better financial control - to manage the inevitable underwriting cycles more skilfully.

It is not that many people are suggesting that the recovery is peaking in preparation for an imminent down-turn into a bout of competition as fierce as that from 1978-1984. In some markets, prices and conditions for certain reinsurance risks are beginning to ease again as underwriters gain confidence. There were indications of softening even in the US market this summer, though it was mainly a matter of reinsurers offering more cover, rather than of price reductions.

Yet there are a series of now familiar arguments suggesting that the next big down-turn may still be some way off, and less destructive than the last. Hence the comment by Mr Robin Jackson, active underwriter for non-marine syndicate 799, one of the biggest at Lloyd's of London, that he is "bullish" about reinsurers' prospects in the US at least.

One of the arguments concerns capacity. Resources have been returning to the industry, with, for instance, capital-raising ventures by US reinsurers. General Re, the biggest, raised $710m of debt and equity in 1985-6.

But there are few signs of a return to the market of the Latin American or Eastern European reinsurers, whose so-called "naive capacity" was a vehicle for some of the worst rate-cutting in 1978-84. The factor which brought them in nine years ago - and triggered the price war - was the high level of interest rates. This encouraged "cash-flow underwriting", where reinsurers cut their prices so as to suck in premium money to be invested at high returns.

With interest rates much lower than in the early 1980s, that should not be so prevalent in 1988-9, though inevitably some players will succumb to temptation if interest rates rise.

The big players are also showing prudence in the way they commit their resources. General Re recently launched a stock-repurchase programme, shrinking its capital; and more broadly capacity for US casualty risks remains tight. Reinsurers are still anxious about the big, unpredictable US court awards which have inflated casualty claims in the last decade.

A further healthy sign is the greater attention being paid by brokers and reinsureds to the financial security of reinsurers with whom they place business. Rating agencies - like Standard & Poor's, A M Best and Mr John Gardner's London-based Insurance Solvency International - have all been extending their rating services to cover a broader spread of international companies.

There are further factors which should induce caution by reinsurers, and help to prevent rate-cutting:

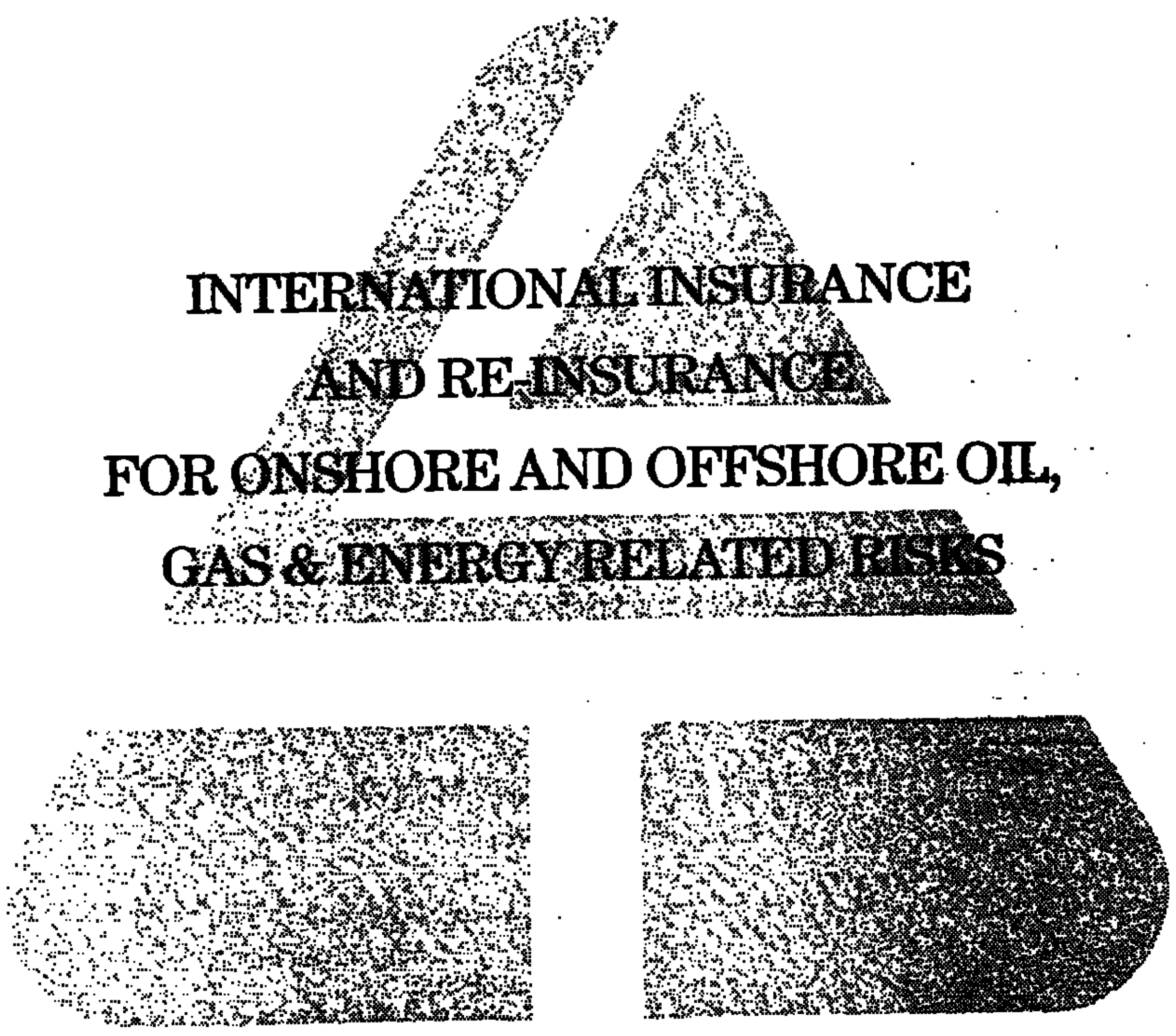
- 1986 was profitable, but reinsurers still need more good years to rebuild their reserves. Estimates of under-reserving by the US insurance and reinsurance industry vary from $10bn to $40bn, according to Mr Clark.

- Nobody knows how much reinsurance is "uncollectable" as a side-effect of the wave of insolvencies that hit the primary and secondary insurance markets in 1984-6. Reinsurers may have trouble collecting from the retrocessional market in which they reinsure themselves.

- Hazardous-waste clean-up claims from the US could turn out to be as big a problem as asbestosis, which has cost insurers and reinsurers worldwide billions of dollars in compensation for North American victims. This summer, Westinghouse Electric sued all its insurers since 1948 for what might be £1bn, to help meet the cost of cleaning up 74 hazardous-waste sites.

There are also signs that, in some quarters, the reinsurance industry's longest-established players are taking steps to eradicate defects in market practices. These include problems like the unacceptably slow of premium and claims money in some markets, and the confusion, uncertainty and tortuous disputes often generated by the lack of codes of conduct.

In Britain, for instance, the ROA - which represents about 320 reinsurance companies worldwide, of which about 105 do business in London - has set up a working party on the vexed issue of market standards.



REINSURANCE 2

1986 Reinsurance company results ($000s)

Company	Net Reinsurance Premiums Written	Net Premiums Earned	Losses & Loss Adj. Expenses	Loss Ratio	Underwriting Expenses	Expense Ratio	Combined Ratio
General Re Group	2,476,849	2,221,292	1,768,856	79.6	586,734	23.7	103.3
Employers Re	1,211,829	1,094,804	917,340	83.8	255,872	21.1	104.9
American Re-Ins. Co	947,494	906,841	666,784	73.5	232,165	24.5	98.0
North American/Swiss Re	738,916	684,177	520,132	76.0	231,754	31.4	107.4
Prudential Re Group	678,947	640,932	468,693	73.1	188,695	27.8	100.9
Munich Re Group	671,798	600,996	409,933	68.2	197,713	29.4	97.6
Kemper Re	405,990	407,696	342,210	83.9	77,389	19.1	103.0
National Re	352,127	329,857	290,246	88.0	56,334	16.0	104.0
USF&G Co	333,562	270,174	163,193	60.4	114,672	34.4	94.8
Continental Re Group	260,714	244,373	160,018	65.5	85,999	33.0	98.5
INA Re	256,773	248,265	194,013	78.1	70,615	27.5	105.6
Transatlantic Re	251,955	233,689	194,749	83.3	64,252	25.5	108.8
St. Paul F&M	233,002	220,311	160,028	72.6	65,107	27.9	100.5
Constitution Re	225,283	191,620	146,951	76.7	54,503	24.1	100.8
Constitution State Mgmt.	222,581	186,677	157,064	84.1	53,228	23.9	108.0
New York Ins. Exchange	198,489	206,434	205,404	99.5	67,409	34.0	133.5
Skandia America Group	193,602	192,145	158,543	82.5	61,366	31.7	114.2
Putnam Reinsurance	187,583	136,116	124,772	91.7	15,035	8.0	99.7
US Int'l Re (formerly Home)	174,953	140,779	114,865	81.6	32,179	18.4	100.0
Buffalo Re	166,005	178,316	162,907	91.4	27,844	16.8	108.2
Metropolitan Re	136,290	123,986	88,085	71.0	35,497	26.0	97.0
American Agr. Ins. Co	124,085	122,452	94,857	77.5	17,977	14.5	92.0
NAC Re	122,688	81,723	73,792	90.3	24,078	19.6	109.9
Reins. Corp. of N.Y.	113,347	99,354	80,779	81.3	28,618	25.2	106.5
PMA Re Corp	111,484	101,622	87,132	85.7	19,568	17.6	103.3
All Others	412,571	560,796	565,741	100.9	97,998	23.8	124.7

Source: Reinsurance Assn. of America Research: Reka Nachoma

The US

Two clouds over the market

AT THE beginning of June, General Re said it would spend $300m buying in its own stock.

The announcement, from America's largest and most respectable reinsurer, seemed odd at the time. While the rest of the reinsurance industry was reporting decent profits after a very difficult few years, General Re was actually taking capital out of the business.

The rule-of-thumb in the industry is that $1 of capital will allow insurance cover generating up to $2 in premiums. In other words, General Re was foregoing $600m in profitable premium income, or almost as much as it pulls in every quarter, in favour of investing in its stock.

The stock market has not been kind to General Re's decision. The market usually reacts to buy-back proposals by marking up share prices, but this time it indulged in a 'loud yawn', as Mr Herbert Goodfriend, of Prudential-Bache Securities, said recently.

With almost all insurance stocks badly out of favour, General Re stock has drifted downwards despite a strong rise in the market overall. However, General Re's decision to reduce its capital employed is not as perverse as it sounds. At the same time as it reported its earnings, the company revealed that, after several quarters of dramatic improvement, net premiums written actually fell by nearly 6 per cent. This was because the primary insurers, enjoying the same recovery in rates, are now strong and confident enough to retainmore risk for themselves.

In the cyclical world of reinsurance, this is usually one of the harbingers of a ruinous price war. The stock market, which has spurned insurance and reinsurance stocks for over a year, certainly thinks that the current boom will soon give way to the sort of bust of the 1983-5 period.

At rock bottom in 1984, it was costing the reinsurance industry $1.28 in expenses and claims to write $1 in premiums. Syndicates dropped like flies out of the New York Insurance Exchange and some 15 companies went into liqudiation or - in the case of some companies of the Mission Group - conservatorship.

But General Re has evidently decided that it is not going to scramble for market share. The optimists are hoping other reinsurers have learned their lesson from the recent horrors and that the downturn, when it comes, will not be so severe. 'The buy-back shows that they are not going to reach for business,' says Mr Myron Picoult, an analyst at Oppenheimer.

Capacity is certainly returning to the market. According to the Reinsurance Association of America, the US reinsurers' capital base - or policyholders' surplus, as it is known - swelled by 55 per cent to $7.95bn last year. Although the industry is not gearing up aggressively, with the premiums/surplus ratio falling from 1.8:1 to 1.5:1, that is still quite a lot of extra capital to compete with.

On the plus side, at least foreign reinsurers remain very chary of the US market. Lloyd's and the West German and Swiss reinsurers are 'continuing to lose share in the US market,' says Mr Andre Maisonpierre, president of the Reinsurance Association.

Foreign reinsurers are undoubtedly unhappy about the foreign exchange risk of an uncertain dollar, but their real aversion is to the liability market, where a few large jury awards have received widespread attention. Ironically, and fortunately for the insurance industry, these same awards have caused many companies to scramble for liability cover and pay handsomely for it.

The result is that, for the moment, it remains a sellers' market. The reinsurers are still dictating strict terms on a number of lines, particularly those with the frightening ability to come back and haunt them years later. Reinsurers are still shy of writing 'treaty' reinsurance, whereby they share in the insurers' entire book of business, long-tail nasties and all. Last year, 24 per cent of transactions were still the more expensive 'facultative' or risk-by-risk reinsurance.

Most environmental liability, medical malpractice and professional liability lines are still apparently being taken from insurers only on a 'claims-made' basis. This means that claims can only be filed during the life of a policy and not, as with some long-tail lines, 20 years later.

Rates on bread-and-butter business, such as workers' compensation, automobile and property, are stable, or falling, but higher retentions by the primary market mean that rates actually rise. And, as last month's second quarter financial results show, many companies are making profits from underwriting even before they count the income they derive from investing the premiums.

How long this pleasant state of affairs will last is anybody's guess. Mr Maisonpierre, who is more optimistic than the stock market, says:'I just don't see the competition for market share.' Provided there is no change of heart overseas, he believes the downturn will bring operating ratios - losses and expenses to premiums - of no worse than 110-odd.

But there are two clouds over the market. The first is the possibility that the industry is drastically under-reserved for some long-tail liability risk of the asbestos type. Many in the industry are anxious about old environmental liablity policies. Mr Maisonpierre gives the example of a policy written, say, in 1965 with the primary insurer retaining $100,000 of the risk. If a clean-up is ordered today, at a cost of, say, $5m, 'the major losses will be paid by the reinsurers,' he says.

The other is the problem of uncollectable reinsurance. Recoverable reinsurance can turn out to be worthless, especially where the risk has been laid off overseas or with troubled companies. According to figures analysed by Mr Picoult, of Oppenheimer, reinsurance recoverables exceed the industry's entire surplus. And, while nobody need worry about General Re whose surplus is more than double its recoverables, few companies are so conservative.

James Buchan

The US: legal and regulatory issues

Sharpening up the principles

REGULATORS ARE taking a closer look at America's reinsurers, and nobody should be too surprised.

The mid-1980s saw unprecedented turmoil in the world's reinsurance industry, as involvencies and tortuous litigation became commonplace. Yet, in the United States, officials in the 50 states' departments and the District of Columbia have largely been operating with a regulatory framework dating back to the immediate post war years.

It was in 1950 - the "watershed' in modern reinsurance regulation, according to Kroll and Tract, the New York insurance law firm - that the National Association of Insurance Commissioners promulgated its 10 principles for regulating reinsurers.

The heart of those principles was the NAIC's desire to develop standards for assessing the financial strength of reinsurance companies. Its anxiety on this issue had arisen in the years after 1945, because primary insurers were buying large amounts of reinsurance, and counting that reinsurance as an asset in their balance sheets.

Understandably, the NAIC members were unwilling to take a view about the strength of an insurance company's balance sheet without also taking a view about the financial strength of the companies from which it was buying reinsurrance.

Recent regulatory developments in the US have not challenged the fundamental principles enshrined in the NAIC's 1950 declaration. Rather, they have sought to sharpen the application of those principles, and to extend them.

One reason lies in cases like that of the Mission. Los Angeles-based Mission Insurance Company went into liguidation this spring with liabilities of $450m, after a two-year struggle to stay afloat. The role that reinsurance played in its downfall had emerged in December 1986.

At that time, the California Insurance Department had sued 144 reinsurance companies for at least $700m in unpaid claims allegedly owed by them to Mission. Mission had become one of the most public victims of an industry-wide scourge - 'uncollectable reinsurance".

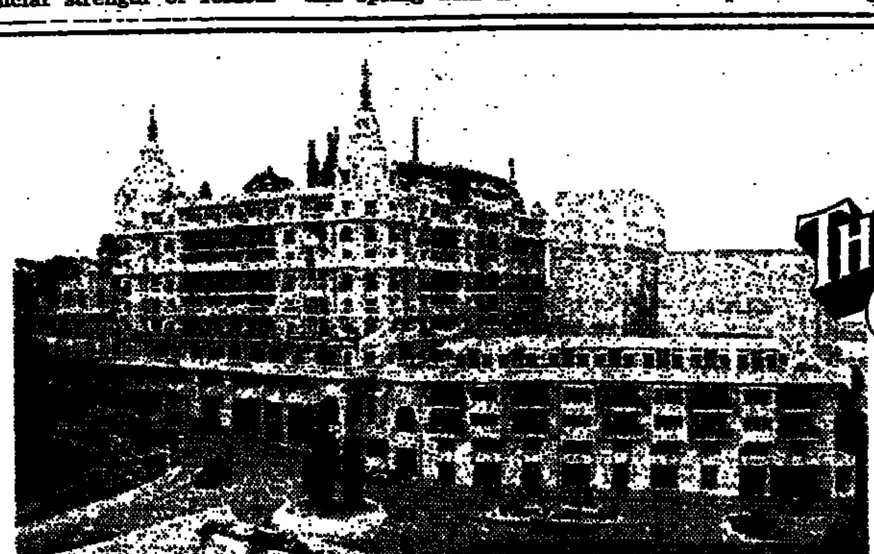
Like many American insurance companies, Mission had attempted to expand its business rapidly in the early to mid 1980s, at a time when fierce competition had forced down premium rates. In order to support its dash for growth, Mission had bought large quantities of reinsurance. It came unstuck when it faced an unexpected surge of claims and found that it could not collect money from its reinsurers because they were either bankrupt or unwilling to pay.

Nobody knows how many millions of pounds and dollars of reinsurance money has become uncollectable in this way, or because of insolvencies arising from the huge claims that the insurance and reinsurance industries have had to bear arising from phenomena like asbestosis. Mr Robin Jackson, underwriter for non-marine syndicate 799 at Lloyd's of London, believes there may be 'staggering' amounts of uncollectable money in the system.

Faced with problems like these, regulators in the US have come up with two kinds of possible solution, in spite of the fact that there are many in the industry who believe that regulation should be kept to a minimum and that the authorities should rely on market forces to weed out weak reinsurance companies.

First, New York State intro-

Continued on page 3



Model law spreads

Continued from page 2

duced in 1982 a pioneering rule called Regulation 98, to impose regulations for the first time in the US on reinsurance intermediaries. They are now required to have written authority from their clients, whether those clients are reinsured parties or reinsurance companies, before undertaking transactions.

Regulation 98 was introduced as a result of the Pritchard and Baird case, in which the reinsurance intermediary became insolvent and was found to have mixed up its funds with those of its clients.

While Regulation 98 was obviously not a reaction to the most recent spate of difficulties in the reinsurance community, other states besides New York - notably Texas and California - have in the last year responded to those difficulties by proposing forms of regulation for reinsurance intermediaries.

The second recent landmark was the NAIC's 1984 model law governing credit for reinsurance.

For many years, state insurance departments have required insurance companies to obtain letters of credit or other kinds of security to guarantee the reinsurance which they buy. The 1984 model law tightened up the letter of credit requirement, by insisting that the letter of credit be for an amount including an allowance for so-called "incurred but not reported" (IBNR) claims payable under the reinsurance policies.

The model law is gradually being implemented by more and more states, while some, including California, are looking again at their entire policy towards the terms on which they will allow insurance companies to take credit in their balance sheets for reinsurance recoverable from companies to which they have ceded business.

Also, says Mr Harold Tract, of Kroll & Tract, there is e general tendency for individual states (including, so far, Texas and Illinois) to increase the amounts of capital (called the "surplus" in the US) which they require a reinsurer to have to support its business. "It was possible to have just $10m of surplus and write business," says Mr Tract. "Now you need at least $25m to be in the business at all."

Nick Bunker

The US: reinsurance in London

Capacity still tight

BROKERS AND underwriters can agree on one thing - that Lloyd's, and to a lesser extent the London company market, are no longer significant reinsurers of the biggest US casualty risks.

Inevitably, given the London market's diversity, there has to be an immediate qualification of that bald statement. It is still possible to find casualty reinsurance in London for a US shareholder-owned or mutual insurance company with a limited, specialised risk portfolio.

An example would be a smallish, regional "monoline" US insurance company, perhaps writing just automobile policies in a few states. It could find reinsurance from Lloyd's non-marine syndicates, though they often insist on restrictive policy-wordings, such as "sunset clauses" shutting off the liability at given points.

Specialised insurance associations, set up by US doctors, lawyers or architects to provide medical malpractice or professional indemnity cover, can also cede some of their business to London.

Yet the overall conclusion still holds good. Burned by the mammoth losses suffered in the mid-1980s on US casualty business - arising from the notorious combination of under-pricing, under-reserving and claims inflated by big US court awards - reinsurers in London are still keeping capacity very tight.

Also, London reinsurers are concerned about the emergence of a wave of claims arising from environmental impairment in the US. There are clear signs of jitters among London reinsurers, arising for instance from cases like the Westinghouse toxic waste lawsuit. The US engineering company sued 40 insurers this spring for $1bn, to help meet the costs of hazardous waste clean-up programmes for which it is liable.

There is continued dismay in London about the failure of US primary insurers to enforce the use of the "claims made" policy form, which limits drastically the time period during which a policyholder may submit a claim.

The net effect of all this is that "a big US insurance company won't be able to find its working layers of cover in London," according to Mr Robin Jackson, active underwriter for one of the biggest Lloyd's non-marine syndicates, number 799. He is bullish, however, about

Mr Jim Payne: detects slight relaxation towards the US

the powers of reinsurers of US casualty business to secure further rate increases, and believes they will have firm control over their business market right through 1988.

Only in 1989 or 1990, he says, will it become clear whether they have all learned their lessons from the last underwriting cycle and can resist rate-cutting.

Where does all this leave the broker seeking capacity for his US clients' casualty reinsurance needs?

One possibility is to turn to "financial reinsurance", which can be arranged with offshore reinsurers in Bermuda. An example is a "time & distance" policy, where the reinsurer is really acting as a banker, agreeing to pay given sums ofmoney back to the reinsured company at given dates.

But this is hardly enough. "A financial product is not a proper substitute for reinsurance," says Mr Jim Payne, chairman of E W Payne, the world's second biggest reinsurance broker, an arm of the Sedgwick Group. What primary insurers really want is to be able to transfer some of their underlying risk, rather than simply make a banking arrangement as a way of hedging against investment uncertainties.

The bottom line in London is fairly clear. According to Mr Payne, if US casualty reinsurance capacity in London was 100 in 1984, it fell to 15 in 1985-6. Now it is back at 20/25, but will never again reach 100, he feels. "The haemorrhaging was just too severe," he says, though he detects "a very, very slight relaxation in the willingness of the market towards US risks."

On US property reinsurance, the London market's situation is rather different. Here, the key question is whether, in the 1988 renewal season, London underwriters will continue to resist pressures from the primary market, and from US reinsurers, to cut prices.

There have already been clear indications of a softening in property reinsurance rates in the US - where some brokers say they have seen 30 per cent cuts.

One important factor is that 1986 was "a uniquely profitable year," for US property business, according to Mr Hady Wakefield, deputy chairman of C T Bowring's London reinsurance broking subsidiary. That was because of the combination of high rates, and the relative scarcity of windstorms.

This could now provoke an escalation of price competition. The pressure is especially hard on rates for "facultative" reinsurance - which covers the reinsured company against claims on a single big risk.

The facultative market virtually dried up in 1984-5, but London and US brokers say they now find facultative business much easier to place.

On the other hand, the widely-reported tales of property rate cutting by primary insurers in the US have created a "fear barrier" among London underwriters - especially the big, established Lloyd's non-marine syndicates. This barrier should strengthen their resolve to turn away business rather than chase premium rates downhill.

Industry observers will be watching closely, though, for any signs that competition is forcing London reinsurers to abandon tough restrictions on coverage - like the "sunset clauses", or the exclusions of pollution from property coverages - which they have imposed since 1985.

At the moment, the signs are that long-established lead underwriters at Lloyd's particularly will keep rates steady and give very little ground on contract-wordings. Some newer entrants in London, however, will be tempted to cut prices and relax their terms.

Nick Bunker

Lloyd's: leading underwriters signed a letter of intent

London brokers

Mood uncertain

LONDON'S REINSURANCE brokers are just a little uncertain - and perhaps uneasy - about what happens next, as the worldwide reinsurance cycle shows signs of peaking.

This April saw the renewal season for Japanese reinsurance contracts, most of them for property/catastrophe risks, like earthquake and windstorm. Rates neither rose nor fell, but there was more underwriting capacity available.

When it came to Australia's renewal date, on July 1, the signs of softening were clear. Some brokers reported rate reductions of 10 to 15 per cent for Australian property treaties.

Hence the mood of uncertainty, tinged with disquiet. On the one hand, London's big brokers are glad to be looking forward to a January 1988 renewal season for non-dollar risks that should be easier than 1986, or 1985, when a sudden, drastic contraction of capacity made renewals a nightmare.

One element may still cause problems: the vexed question of "seepage and pollution" exclusions. In 1986-7, reinsurers were unnerved by fears that they would indirectly foot much of the multi-billion dollar bill for cleaning up hazardous waste sites in the US. Hence, the determined effort by London reinsurers last year to exclude seepage and pollution cover, even from non-American property treaties.

This issue is still "in limbo", according to Mr Dieter Losse, of Greig Fester, the Lloyd's broker. In 1987, the matter was tentatively concluded by a "letter of intent" to exclude seepage and pollution, signed by leading Lloyd's and company underwriters. That has left reinsurance brokers still trying to win some concessions from reinsurers. "We're trying to get them to assess the matter on a case-by-case basis," says Mr Ron Iles, joint chairman of the Alexander Howden Group.

Yet, in spite of the prospect of further fraught negotiations on that point, most London reinsurance brokers tend to agree with Mr Hady Wakefield, deputy chairman of C T Bowring (Reinsurance). "This year-end will be a much more traditional renewal season," he says. "We'll be haggling about prices and deductibles, rather than about definitions of coverage."

The elements of anxiety among brokers creep in precisely because of the speed with which the market is starting to soften again, after only two to three years of steep rate increases and tight capacity.

A softer market should benefit the brokers by boosting their turnover. Insurance companies tend to buy more reinsurance as premium rates fall in the primary market.

On the other hand, few brokers will be happy if a downturn in reinsurance rates in 1988 is the prelude to a savage price-war of the kind which blew the bottom off much of the industry in the early to mid-1980s.

Fears of a swift return to a soft market can be over-done, of course.

First, the Australian renewal season may offer no clear guide to what happens at the year-end. Australia, after all, has a strong, competitive domestic reinsurance industry, and significant price increases achieved there in the last few years may have led to technical corrections this year.

Second, there are signs that London underwriters are determined not to follow rate-reductions by primary insurers or foreign reinsurance companies. Some brokers saw indications this summer, for instance, that London was losing non-dollar property catastrophe reinsurance business because of strong competition from the Munich Re and the Swiss Re.

Third, even non-dollar casualty reinsurance capacity remains relatively tight. This is partly because of the absence of the so-called "naive capacity" - such as Latin American, or Eastern Bloc reinsurers, which contributed to much of the pre-1984 rate-cutting. But it also reflects tough underwriting attitudes.

On professional indemnity accounts, the London market is still feeling the impact of the Munich Re's withdrawal from the area three years ago at a time when big damages awards against international accountacy firms were emerging.

Michael Payne, the active underwriter for Lloyd's non-marine syndicate 386, which leads much of this business in London, hit a period earlier this year when he could find no professional indemnity reinsurance at all.

At the same time, reinsurers' hostile attitudes towards North American casualty business have spilled over into their assessment of non-dollar product liability accounts. Mr Payne was finding this year that he could write only the first £6m of a £50m liability policy for a large British manufacturing company. He used to be able to write the first £8m - but has lost one of his layers of reinsurance.

These factors should keep widespread rate-cutting at bay for some time yet. But - amidst all the uncertainty - one thing is clear. "Leading underwriters are resisting it - but you'll be seeing a softer market from here on in," according to Mr Callum Stewart, a director of C E Heath, the Lloyd's broker.

Nick Bunker

Profile: Victory Insurance Company

Long-term field niche player

VICTORY INSURANCE Company, a member of the Legal and General Group, is the second largest UK registered reinsurance company, but still a small player in the global market alongside the giant multinational groups.

Its revenue premium income last year was £141m, of which £80m came from general reinsurance and £61m from long-term business. Premium income this year is expected to reach £170m.

The company's main area of operation is still the UK and Europe (serviced from the UK), with the UK accounting for 35-40 per cent of business. It operates in Australia and New Zealand, Canada and the US, Hong Kong and Bermuda.

Its US involvement is comparatively small, around 10 per cent of its overall business; and, as chief executive John Butcher points out, Victory is to some extent a niche player in certain areas. Its US business, for example, is confined mainly to the property sector.

The company has little involvement in Africa and very little in South America. Nevertheless, Victory was hit as hard as any reinsurer on its general reinsurance business in the recent recession and, as Mr Butcher admits, was slower than most to come out of it. In his words, Victory was hit hard by "one or two nasties".

The company took the necessary corrective underwriting measures early enough, in line with the other reinsurers, putting up its prices and taking a tougher line on the terms. Its rather high level of proportional business was a severe handicap in taking the necessary corrective measures. But Mr Butcher feels that the company was about 12 months behind companies like Mercantile and General Reinsurance in taking the necessary action to strengthen the reserves.

When conditions become adverse reinsurers can lose a lot of money

As a result, it is still recording operating losses on its general reinsurance operations - a feature seen for the last few years. The £1.4m overall operating profit achieved last year - the first for three years - came from buoyant long-term reassurance business.

Victory is comparatively strong for its size in the long-term reassurance, though in absolute terms its premium revenue is dwarfed by that of the multinational reinsurance giants. It has achieved its success in the long-term field by being something of a niche player - offering direct life company clients services beyond that of providing reinsurance on life risks.

In this respect, Victory has made itself a specialist in the reassurance of long-term sickness contracts - known as PHI (Permanent Health Insurance).

Mr Butcher, who became chief executive just over a year ago, is not in a position even to indicate whether Victory is fully back into profitability this year, since the company's parent Legal and General reports its interim results in the middle of September. But he is certain of the way he wants to develop Victory: build on its strengths.

For this reason, he is cautious about expansion into the US. Every development in the US reinsurance operations he sees as a recipe for disaster. He sees the Far East as a more favourable area, and is optimstic about business from the UK.

So, on the general insurance side, efforts will be concentrated on expanding the fast growing and profitable Marine and Aviation account, which has seen premium revenue treble in three years so that it represents nearly a quarter of the business. On the property/casualty business, the excess account is now growing at a faster rate than proportional business.

However, Mr Butcher's enthusiasm for the future of Victory rests with the development of its long reassurance business, which is less volatile and far less cyclical in its performance.

When conditions are favourable, reinsurers can make excellent profits from general reinsurance business. But when conditions become adverse, they can lose a lot of money from this business, as Victory has learned the hard way.

A period of more stable profitability appears to look attractive to the company. Mr Butcher considers Europe to be ripe for expansion in long-term business. But this growth will not be from the traditional risk reassurance services, where the home-based giant multinationals already provide these services, but from the ancillary services now provided by reassurers - product development and marketing.

European life companies are now starting to show interest in unit-linked business - two decades behind development in the UK. But it is an unknown field for many of these companies. Victory, through its UK long-term reassurance operations, has been providing product development, marketing and financing help to clients, particularly the smaller recently formed life companies.

Only one major obstacle lies in the way of rapid expansion of long-term business. The recent insurance regulations brought in by the UK authorities, based on EC requirements, impose stringent solvency margins on long-term reassurance business. Expansion has to be backed by adequate capital, and this long-term insurance business expansion will require more capital resources to be put into Victory.

Legal and General has injected £45m since it acquired the company, and can only be expected to put more capital in if it will get a satisfactory return. Long-term reassurance business does offer this prospect. But, as John Butcher points out, it also means that the company has to proceed with caution in its development.

Eric Short

Role of the banks

LC market to get new entrants

AT A TIME when banks are pouring creative energy into finding alternative ways of servicing the reinsurance industry, it is ironic to find that competition in the letter of credit market is about to hot up.

Letters of credit, which allow reinsurers in the US to meet regulatory requirements for reserves against future claims on reinsurance policies ceded outside the US, have traditionally been the staple product provided by banks.

But, following a number of business failures in the reinsurance industry earlier this decade, many US banks retrenched their LC business.

Yet there could now be new entrants into the business as last June the National Association of Insurance Commissioners, which represents state insurance departments in the US, approved a change allowing ceding companies to receive LCs from foreign banks.

Depending on how many individual states take up the change, this could feasibly open up a wealth of opportunities for non-US banks to get in on the act. However, bankers' views on the impact this will have on the US market vary widely.

Some suggest that it will be hard for new entrants to break into the relationships already established by the remaining key providers of LCs, notably Citibank.

"You need a bank with a commitment to service the industry as a whole, and there aren't many around like that," Mr Andrew Williams of Citibank says.

But Barclays Bank, which has been one of the main driving forces over the last few years in persuading the NAIC to allow non-US banks into the market, disagrees. "We see the admittance of a UK bank as creating necessary capacity in the US," says Mr Terry Hibden, of Barclays.

The American banks may also find that the proposed convergence between British and US regulatory requirements for capital adequacy will give them further grounds for cutting back their LC business. It will certainly for the first time force US banks to count certain letters of credit as liabilities on their balance sheets. UK banks already have to do so.

The quest for alternatives to the LC, in the case of the US banks, has led to vigorous promotion of trust funds, which contain securities pledged by a reinsurer to cover his liabilities, but do not have to appear on the bank's balance sheet.

The standard trust fund is assigned to a ceding company, whose written approval is then required for any movement of the securities held in the fund.

This is a rather cumbersome mechanism, however, and for this reason, bankers have over the last few years been working on refining the product.

Bankers Trust has been working on a so-called "multi-beneficiary fund", designed to make administration much simpler for the reinsurer. The multi-beneficiary fund, enables the reinsurer, using only one fund, to issue certificates in favour of all the US companies with which it has done business.

Bankers Trust has been seeking approval from authorities in the US for this since December 1985, but says it has now been approved by several major states.

Apart from letters of credit and trust funds, bankers have been working vigorously to develop "value-added" services for reinsurance clients. As Mr Andrew Williams, of Citibank, puts it: "The banks have been seeing the reinsurers becoming far more sophisticated in their use of services."

Citibank has been at the forefront of this trend, with a computerised system in place that provides such services as information about balances outstanding within a letter of credit. Barclays is planning to emulate this once it is allowed to provide letters of credit to ceding companies in the US.

In addition, banks have been selling a range of products for handling foreign exchange risk - which matters to an industry like reinsurance which is dominated by cross-border flows of funds.

Mr Andrew Williams says that interest in such products as currency options and swaps has been picking up steadily over the last couple of years, as reinsurers have faced extreme volatility in the foreign exchange markets.

For banks with investment banking operations, there are additionally opportunities to provide services enabling the reinsurance companies to tailor their assets to their liabilities more effectively.

For instance, Midland Montagu, the securities arm of Midland Bank, which has a growing presence in the LC market, currently provides zero coupon deposits designed to match exactly certain reinsurers' loss liabilities.

Meanwhile, other banks are looking to provide corporate finance services. Bankers Trust in particular has been concentrating on this, seeing considerable scope for mergers and acquisitions advice to the reinsurance sector.

Clare Pearson

Legal issues

Rights of innocent insured

THIS LEGAL year saw the Court of Appeal decision in the *Phoenix* case, which was to clarify the rights of the innocent insured who contracts with an unauthorised insurer.

The light shed was dim, being *obiter* only, and to the reinsurance market in general it did not give the hoped-for answer.

The question was whether an innocent insurer can claim under a primary contract entered into with an unauthorised insurer who, because of the lack of authorisation, cannot claim against his reinsurer.

In 1983, in the *Bedford* case, Mr Justice Parker held that the innocent insured could not claim. In 1984, in the *Stewart* case, Mr Justice Leggatt held that he could. In 1985, in the *Phoenix* case, Mr Justice Hobhouse held that he could, but for different reasons.

Three differing judgments at High Court level is hardly desirable in a precedential system, and it was hoped that the appeal in *Phoenix* would provide a solution - in favour of the innocent insured. A decision on *Stewart* lines would have gone down well in the market.

The Court of Appeal, however, decided that, because of transitional provisions in the relevant secondary legislation, the insurer, Phoenix, was in fact authorised to carry on the business, so that the question of illegality did not really arise.

Nevertheless, Lord Justice Kerr dealt fully with the point in so firm an *obiter dictum* that lower courts will find it virtually impossible not to be persuaded. The disappointing conclusion was that the innocent assured, for whose protection the insurance legislation was passed, is without protection in this particular situation.

The root of the problem lies in the wording of the Insurance Companies Act 1974, which provides that no one is to carry on "insurance business" unless authorised, and defines that business as "the business of effecting and carrying out contracts of insurance" in the appropriate class.

Mr Justice Parker said that meant that a primary contract by an unauthorised insurer was prohibited and was therefore illegal and void. Mr Justice Leggatt said only the "business" was prohibited, not the actual contract. Mr Justice Hobhouse said the contract was prohibited as against the insurer only, not the insured, and so was illegal and void only to the extent that the insurer could not claim reinsurance.

Lord Justice Kerr, agreeing with the *Bedford* reasoning, said the contract was prohibited as against the insurer, and as the insured could not be expected to aid and abet him in his illegality, the entire contract was void.

The House of Lords will hear the *Phoenix* appeal on February 22 next year. If it finds that Phoenix was authorised, any ruling on illegality will again be *obiter* - though no court would defy its persuasive force.

Lord Justice Kerr reached his decision reluctantly, describing it as a "most unfortunate state of affairs". The market shares his optimism that "reputable reinsurers, solicitous of their good name and reputation, will no doubt hesitate long before relying on this defence".

Other cases this year have favoured brokers and agents, who sometimes feel that legally they have a rotten deal.

In *Transcontinental Underwriting Agency v Grand Union Insurance Co*, Mr Justice Hirst held that an agent or broker who signs a retrocession agreement on behalf of his principal is entitled to sue on it personally, and to hold the proceeds as fiduciary, unless the agreement shows a contrary intention.

And in *Daly v Lime Street Underwriting Agencies* Mr Justice Staughton gave a clear go-ahead to Lloyd's underwriting agents to bring an action in the US under the Racketeer Influenced and Corrupt Organisation (Rico) Act 1970. He said that an agent's contractual authority to "carry on the business of an underwriter" on behalf of a syndicate includes all aspects of the business, and that there is no reason why a Rico action should not be part of that business.

The Rico Act was a reaction to organised crime and drug trafficking. It was originally intended to provide civil remedies against organised crime only, but is being increasingly applied to civil cases where a pattern of fraud can be established. Plaintiffs like it because it carries the advantages of triple damages, recovery of costs (unusual in the US), wide discovery, and federal jurisdiction.

According to solicitor Steven Blair, of Alsop Stevens, who is directly involved in reinsurance and in organising in-house seminars covering UK, US and European markets, there has been a rash of Rico claims in the US in the last 12 to 18 months, some involving UK as well as US companies.

An increase in loss ratios (difference between premium and claim) in the US has, he says, led to an increase in disputed claims. A UK trend which is spreading to the US is the use of consultant/investigators, who are called in to audit a reinsured's books when the paying reinsurer considers the loss ratio is too high, or that something else might be wrong. This can be a genuine search - or it can be a tactic resulting in delayed payment or discharge of liability.

The US preference in reinsurance cases has traditionally been for arbitration, which is quick, quiet and confidential. With the increase in the number of disputes, and the expanding use of the Rico procedure, this preference is now giving way to litigation.

In Europe, the tendency remains for disputes to be heard in the UK, whether by arbitration or litigation. Most European companies are licensed in the UK or employ underwriters in the UK, and would anyway arbitrate or litigate there if the reinsurance concerns the London market.

They recognise Commercial Court judges as the most experienced adjudicators in the world of reinsurance disputes, with a reputation for absolute impartiality. Until recently also, the speed with which cases came up for hearing in the Commercial Court reinforced the choice.

This speed is diminishing. Mary Smith, assistant clerk to the Commercial Court, says that, whereas hearings used to start within three to six months of close of pleadings, they now take three years or more, depending on the length of the hearing. The Commercial Court's success in providing speedy justice has led to an increase in case load, which in turn is now defeating one of its chief objects, speed.

Steven Blair says there are not only too many cases and not enough judges - there is not enough money.

At present it costs £200 or £300 to get a trial going. This includes issue of the writ, use of court facilities and judges' time for perhaps days or weeks on end. An arbitration is financed by the parties, at perhaps £500 or more a day plus accommodation for the arbitrator, and maybe £2,000 a week for use of a court.

Money for litigation could come from the practitioner, says Steven Blair. He suggests that a fair amount should be charged, perhaps under a system similar to that used in some arbitrations, where the claimant is expected to pay a percentage of the claim plus expenses.

This might also have the effect of encouraging settlement rather than dispute, and so decrease the court's workload.

Rachel Davies

Bedford case - FT, November 16 1983; Stewart case - FT, May 2 1984; Phoenix case (Hobhouse J) - FT, August 20 1985; Phoenix case (CA) [1986] 2 FTLR 665; Transcontinental case - [1987] 2 FTLR 35.

Environmental Liability

A court fight on clean-up costs

OCTOBER 12 this year may prove to be a fateful date in the history of the reinsurance industry.

A California Superior Court judge in San Bruno, just south of San Francisco, will begin presiding over the trial of the Rocky Mountain case - the biggest legal battle so far over the potential liability of insurers for the cost of cleaning up America's old hazardous waste dumping sites.

In the case, Shell Oil, the Texas-based US arm of the Royal Dutch Shell group, is suing its liability insurers - which include several hundred Lloyd's syndicates and London market insurance companies - for $1.8bn towards the cost of cleaning up the Rocky Mountain Arsenal site, near Denver, Colorado.

Shell used the Arsenal until the 1970s as a dumping ground for by-products from pesticide production. *Its insurers have* refused to pay the $1.8bn, on the grounds, they say, that environmental clean-up costs were never covered in the comprehensive general liability (CGL) policies which Shell bought between 1948 and 1982. Already, the Californian trial judge has estimated that hearings in the case could last a year.

According to Mr Philip Matthews, of Hancock, Rothert and Bunshoft, one of the law firms acting for insurers in the case, it is the biggest of perhaps 30 or 40 similar suits - though no one is sure of the exact number - now at various stages of progress through American civil courts.

The most significant new filing recently has been the huge action launched in New Jersey, in May, by Westinghouse Electric against more than 140 of its post-1948 property and liability insurers.

For both US and European reinsurers, the Shell case's broader significance lies in the indications it may give of whether they will eventually have to pay much of the multi-billion dollar bill for the environmental damage caused by decades of toxic waste dumping by US industrial companies.

The issue has emerged as one of vital concern to the insurance industry since 1980, when the US passed the Comprehensive Environmental Response, Compensation and Liability Act - better known as the "Superfund" programme.

Administered by the federal Environmental Protection Agency (EPA), the Superfund law enables regulators to pursue US corporations for the costs of compulsory schemes to clean up waste sites like Rocky Mountain Arsenal.

One measure of the potential sums involved comes from Mr Bob Mason, chief of the EPA's guidance section in Washington DC. "The figures vary depending on whom you listen to - but in 1985 we estimated that clean-up costs would average $7.2m per site. Now that would be $8m," he says.

He thinks there will ultimately be about 2,000 sites on the EPA's National Priority List - giving a total cost of about $16bn. Some argue, however, that the EPA has tended to be *too* conservative in its projections - and in March 1985 the US congressional Office of Technology Assessment put the ultimate Superfund clean-up cost at $100bn.

So far, the signs are that insurance companies in the US are gaining ground in their legal fight to deny that they should pay any of it. In two recent cases - *Maryland Casualty v Armco*, and *Mraz v Canadian Universal Insurance* - federal appellate judges in Maryland and Virginia found in favour of the insurers, which had argued that hazardous waste clean up costs could not be recovered under CGL policies.

Lawyers for insurance companies are also taking heart from signs that courts are not automatically applying to hazardous waste the legal decisions which, since the early 1980s, have established the liability of insurers to pay for billions of dollars of claims filed by asbestosis victims.

However, policyholders' lawyers are already trying to use as a precedent in hazardous waste litigation Judge Ira Brown's ruling on May 29 in San Francisco, which substantially broadened the defintion of insurers' liability in asbestosis cases.

In turn, the diversity of the American civil justice system - fragmented among 50 state jurisdictions, plus about 100 federal court districts - means that there have so far been a number of conflicting rulings on the hazardous waste issue.

Among US insurance lawyers, the broad consensus is that case law on hazardous waste is still at an embryonic stage - and that it could be the 1990s before secure legal precedents have been established.

This is partly because the sheer complexity of some of the hazardous waste cases means that they could drag on for years, leaving insurers at best with huge legal defence costs. Mr Matthews believes that, judging by the Shell case - where the original law-suit was filed as far back as autumn 1983, and 35 law firms are now involved - the Westinghouse action might take more than a decade to come to trial.

To date, insurers say they have paid out only small sums for Superfund clean-up claims. But cases like Rocky Mountain Arsenal and Westinghouse have left insurers and reinsurers with nagging doubts about the adequacy of their loss reserves - and bafflement over how to compute the size of their ultimate liability and their legal bills.

Nick Bunker

Profile: Munich Re

Discreet giant turns corner

ITS CHATEAU-LIKE headquarters on Munich's Koeniginstrasse almost say it all. Muenchener Rueckversicherung, the Munich Re, is an institution. Rock-solid on the outside, tastefully avant-garde within, the headquarters of the world's largest re-insurance company, founded in 1880, exudes status and seemingly cool detachment.

The group's chief executive, Mr Horst Jannott, aged 59, contributes to this dynastic air. He is only the Munich Re's sixth top man since its foundation, and is likely to remain in charge until he is 65. Curiously self-effacing, considering his status, Mr Jannott, who joined in 1954 and has been in the driver's seat since 1969, is an *eminence grise* who has seen the Munich Re's gross premium income rise, from DM300m a year when he first started as an employee, to some DM12bn today.

Many of the Munich Re's other figures speak in superlatives. Though it has to bow to Cologne for the distinction of being the first in the business in Germany, the Munich Re dwarfs most competitors in virtually every other way. Moreover, either directly or through affilitates, it holds significant stakes in many German direct insurers.

Best known is its 25 per cent reciprocal stake in Allianz, Europe's biggest insurer and now the seventh largest insurance company in the world. Among the Munich Re's other significant holdings is a 44.5 per cent stake in Allianz Life, 50 per cent in Hermes, Germany's leading credit insurer, 47.2 per cent in Berlin Life, 10 per cent in Albingia, and 5 per cent in the Aachener und Muenchener. The group also has a small reciprocal stake in Commercial Union of the UK.

In all, the Munich Re accounts for about 7 per cent of aggregrate German direct premiums. But it also has strategic stakes in non-insurance groups, though these are usually in related fields like fund management and property. However, it even owns 25 per cent of in a Hamburg brewery.

Apart from the known holdings, the Munich Re's variety of mysterious undisclosed holdings in other groups, such as banks, are almost a legend in themselves. All that is known for sure is that its investments are grossly undervalued. According to the US broker Fox-Pitt, Kelton, the company's adjusted book value is at least 26 times the disclosed value. "For example, we believe that Munich Re carries its 25 per cent holding in Allianz (worth DM5bn) at an effective value of nil," it says.

Other brokers are almost as fulsome. Mr Joerg Bohn, of Frankfurt-based CRM, reckons that "the total book value of Munich Re's stakes in various companies stands at DM2.8bn, whereas the current market value is over DM20bn".

However, difficulties in the re-insurance market in recent years mean the Munich Re's profitability record has not always lived up to the mammoth reputation of its investment pool. Losses in US liability re-insurance badly hit earnings throughout the industry. And when interest rates started to fall internationally, investment earnings provided a thinner cushion than in the past. The group had to set aside DM290m in extra provisions in the 1985-6 business year, of which some DM250m was for US liabilities.

The Munich Re thinks it has now turned the corner. Inexperienced companies which came into the re-insurance business in the late 1970s, partly on account of the high interest rates at the time which guaranteed good investment earnings, left almost as quickly following the US liability problems. There is still overcapacity, says the Munich Re, but matters are by no means as bad as they were.

Losses in the US are still weighing down its results, however, and extra provisions will again be required for US business this year, though probably not on the same scale as before, according to Mr Michael Huttner, of Fox-Pitt, Kelton. But the business has become "notably better" elsewhere, and was even showing a profit in places, according to the company in its letter to shareholders at the end of June.

The upturn overall is still not strong enough to cancel out the US problems, and the group says it expects another technical loss this year of about same size as last year's DM482m, though some analysts are less pessimiistic. Meanwhile, premium income, up 1.5 per cent to DM12bn, raised few eyebrows.

The Munich Re's dividend forecast did cause a stir, however. It has paid an unchanged DM9 a share for the past five years. Overall results for 1986 would again be "satisfactory", it said, coyly adding that earnings would be adequate to pay "at least" an unchanged dividend.

Such asides are not made lightly by German companies, and the "at least" caused a flurry. Behind closed doors, the Munich Re suggested that this year's profits could in fact be "a bit better" than its DM56.5m after tax in 1986.

Investment earnings this year are expected to match last year's level, and the group strongly rejects the criticism often levelled at Germany's direct insurers that investment policy is unenterprising and investment departments understaffed, with investment still tending to take a poor second place to underwriting.

Re-insurance companies in Germany do not suffer from the same stiff legal constraints on their investment policy as direct insurers, it says. Nor is its investment department, with about 75 professionals, understaffed; and managers are free to invest in whatever way they see fit, it says.

Horst Jannott: sixth top man only since Munich Re's foundation

The investment people are hardly the only specialists on board. Among the 1,600 staff at the Munich Re's headquarters are almost as many engineers. They analyse technical risks both for the company itself, and occasionally for smaller direct insurers abroad which turn to it for advice.

There are even six doctors on the payroll. But they have more important things to do than staff health care. They are employed to weigh up the risks of specialist underwritings such like actors' noses or the possible effect of rare diseases. Hurricanes, hailstorms, earthquakes and rare risks - such is the lot of the world's largest re-insurer.

Haig Simonian

European reinsurers

Strong links with clients

AMONG THE West German and Swiss reinsurance sectors are the world's largest professional reinsurance companies. Prospects are good, and there are also signs that these companies are now aiming to diversify into other international markets. Aided by their expertise and strong asset backing, the prominence of these companies could therefore increase.

West Germany houses Munich Re, the world's largest reinsurer. The other major reinsurers present within this market are Gerling Konzern, which ranks 10th in the world; Cologne Re, ranking 13th; and Frankona, which ranks 14th in the world. Similarly, Switzerland is the home of Swiss Re, the world's second largest reinsurer.

The European reinsurers have particularly long histories. Cologne Re, founded in 1846, claims to be the oldest reinsurance company in the world. Swiss Re was founded in 1863, and Munich Re in 1880.

One reason for the prominence of the European reinsurance market, especially in West Germany, is the strong relationship between reinsurers and their client companies. A striking example of this is the 25 per cent cross holding between the two market giants, Munich Re and Allianz. These intertwining relationships make it extremely difficult for new entrants to establish any significant market position in West Germany.

A major feature of the German reinsurance market is that the amounts reinsured are significantly larger than in other major markets. For example 64 per cent of fire business an 33 per cent of liability business is reinsured.

West Germany and Switzerland are both mature insurance markets, non-life insurance accounting for 3.5 per cent and 3.3 per cent of GNP respectively. The comparable statistic is somewhat lower for the UK at 2.9 per cent. This, and the already heavy use of reinsurance, has resulted in there being little scope for further domestic expansion, and the reinsurers are now looking to increase their international exposure.

This search for a more international business distribution is becoming increasingly apparent. Swiss Re is considering acquistions in the direct insurance field in territories such as the US, the UK, Spain and Italy. Cologne Re's chairman announced that the company sought to develop its "international face" in the coming business year. The international visibility of these companies, including both Frankona and Cologne, has been boosted in recent years through major share placings. Munich Re already derives 50 per cent of total premium income from its overseas operations, but growth in its US subsidiary has recently been particularly rapid.

But the search for further international business is accompanied by a cautious underwriting approach in high-risk areas such as US liability. For example, the chairman of Swiss Re, Dr Walter Diehl, announced last year that Swiss Re would be accepting very little hard liability business in the US. Exposure to large US liability claims has resulted in heavy reserve strengthening. In 1985, for example, Munich increased its transfers to "exceptional reserves" by over seven times to DM 290m.

The time is indeed ripe for international expansion. The shortage of capacity in world reinsurance markets, and renewed emphasis on expertise and security, provide the European reinsurers with an excellent opportunity. The strength of the Swiss franc and the Deutsche Mark against the US dollar and related currencies makes foreign acquisitions particularly attractive. However, it remains to be seen whether European reinsurers will choose to expand organically or through acquisition.

An added advantage is that a close look at the reinsurers' assets shows them to be particularly secure companies. For instance, the book value of German reinsurers' assets is noticeably understated as a result of very conservative accounting techniques. The reinsurers use the "Strenge Niederstwertprinzip", ie the historic low cost basis, where assets are written down as their market value falls and are never written up when their market values rises. Effectively, therefore, assets are given at their lowest market value since acquisition.

For the older reinsures, whose assets have been held for many years, the understatement is often dramatic. This is borne out by the book value given for Munich's numerous participations. Munich's two substantial participations in the Allianz group (25 per cent of Allianz Holding and 46 per cent of Allianz Lebens) are valued by the market (according to the share prices of these companies) at approximately DM 10bn. Astonishingly, the book value given (which includes other large insurance stakes) for all of Munich's participations in only DM 2.4bn.

Similarly, we estimate the market value of securities and shares held by, for instance, Munich and Cologne to be approximately three times book value. As a result of these conservative accounting techniques, solvency margins appear to be very low by international standards.

For example, Munich's solvency margin (the ratio of "published" shareholders funds to net premium income) is 14 per cent. However, using our morket estimate of shareholders funds increases this margin to an astounding 270 per cent. It is also worth noting that this estimate may still be cautious, as it is widely believed that the reinsuers' underwriting liabilities are conservatively stated.

Chris Pountain and Juliet Shaughnessy
Wood Mackenzie

Technology

Backroom big bang looms

IN THE complex history of computers and reinsurance, this autumn may turn out to be a season of decisive change, in the UK at least. In the words of Mr Murray Lawrence, deputy chairman of Lloyd's, a "back-room big bang" is about to hit London's fragmented, anarchic insurance and reinsurance community.

Its basic blue-print appeared this summer. After six years of stumbling towards a common strategy, Lloyd's, its brokers and 240 London-based insurance companies jointly unveiled plans for an electronic network capable of instant exchange of huge volumes of insurance data.

Its aim is to enable the instant exchange, down telephone lines, of complex data about risks and claims which, at present, has to be ferried around the London market by brokers clutching bulging files.

Given the possibility of a link into the UK's banking system, it could provide for electronic transfer of funds. It also has the potential - well before 1990 - to link London directly to clients in overseas centres.

The meeting of minds which led to this summer's announcement was a remarkable achievement - especially since, just 12 months before, the Council of Lloyd's had rejected the Business Processing Strategy (BPS). A detailed plan for an all-electronic market, the BPS evoked hostility from underwriters worried that it would destroy the old face-to-face patterns of trading in the Lloyd's underwriting Room.

But the London market network's significance is far from being just a matter of technology. To quote Mr Dieter Losse, chairman of the London brokers' reinsurance committee, it represents "an essential ingredient of the future."

That is partly because - in the process of building a network - the London market may have to agree new standards of conduct for its basic trading practices.

Possibly in October, for instance, non-marine brokers and underwriters at Lloyd's and in the company market will complete their long "terms of trade" pilot scheme, after an extension agreed at the end of July. Begun on January 1, the scheme was aimed partly at standardising and speeding up the settlement of premiums and claims payments.

That is a vexed issue. What is at stake is the question of which side of the market - the broker, or the underwriter - controls a significant chunk of the investment income that can be earned from the London market's huge flows of cash. But that is just the kind of issue that will have to be resolved if the market wants to use the network to the full.

From a purely technical point of view, the new network will cause little excitement in the computer world. Operated by IBM, via a centre at Warwick, it will use the kind of facilities that, for instance, banks and building societies already employ to connect networks of automated teller machines.

It matters for three reasons - all of which transcend by a long way the network's purely technological significance.

First, the network may produce a 10 per cent saving in administrative costs. Second, it could sharpen London's competitive edge by improving service to policyholders, via the speeding up of claims-handling in particular. Last, it represents the most successful attempt so far to develop market-wide information technology (IT) solutions to business problems.

In fact, the history of IT in the London market goes back 25 years, and has always been a matter of trying to balance centralised decision-making in the common good, against the need to preserve individual enterprise.

The Lloyd's Policy Signing Office - which provides central administrative back-up for syndicates - was for instance one of the UK's earliest pioneers of punch-card based data processing. Since the early 1960s, systems companies like CAP and the Sherwood group - whose "Sabre" box-recording system is used by about 50 per cent of Lloyd's syndicates - have been active in the market. Also, Wang, the computer hardware and software company, has made heavy inroads by selling personal computers as word-processors to brokers and underwriters.

But the trend hitherto has been for chaotic, uneven development - with some of the market's Lloyd's agencies, brokers and companies moving far more rapidly than others, and some with virtually no modern IT all.

This high degree of uneven development has largely arisen because of the extreme fragmentation of the market - into 240 Lloyd's underwriting agents, nearly 400 Lloyd's syndicates, 260 brokers and 230 marine, non-marine and aviation insurance companies.

On the one hand, this has left scope for a high degree of individual enterprise. For instance, syndicates managed by four Lloyd's underwriting agencies - D P Mann, Taylor Clayton, the Merrett Group, and Claremount - are either now using, or have signed up to use, the "Box-office" system devised by D P Mann and CAP Financial.

Developed since February 1985, at a cost of about £1m, his system provides an interface to the London market network. The D P Mann syndicate - number 435 - was one of the four pilot syndicates which took part in IBM network trials preceding this May's network announcement.

Second, like Sherwood's Sabre, it runs the syndicate's day-to-day clerical functions. Third, it acts as an underwriting tool, particularly in the design of the underwriter's reinsurance programme. The underwriter can build into it, for instance, a series of different mathematical models for analysing how claims will develop out of the insurance business he has written.

Yet not every user's experience with IT in the London market has been as happy as this. Lloyd's, for instance, is littered with war stories of underwriting agents that have spent heavily on inappropriate systems and found that they consumed more money and management time then they were intended to save.

The arrival of the London market network now poses a two-fold challenge. First - as Mr Losse suggests - the market can use the process of network implementation as a means for reaching collective decisions about how to standardise basic trading practices, such as the terms of trade, with the ultimate goal of improving the standard of service to clients. Second, it will be an opportunity to educate underwriters and brokers to be the masters - rather than the slaves - of new technology.

Nick Bunker

REINSURANCE 7

Actuarial issues

Professional guidelines reflect increasing role

IN THE past few years there has been a sudden upward surge in the numbers of actuaries involved in London market reinsurance, albeit from a very small base.

Five years ago, fewer than 10 actuaries devoted the greater part of their time to non-life reinsurance work. Today, that figure has quadrupled to approximately 40. Many are consultants who, therefore, act for several companies and syndicates. The total figure, however, is not reflected in the 35-strong membership of the London Market Actuaries, an informal but select luncheon club for actuaries working in this field.

The 35 figure understates the numbers, partly because not all actuaries choose to join, and partly because some are restricted by an effective quota on the number of members from any one organisation. This mainly affects the larger firms of consultants.

Most actuaries working in non-life insurance are governed by the Institute of Actuaries, the principal actuarial professional body in the UK. The Institute sets non-life insurance—including topics on reinsurance—as a specialist subject in their examination syllabus. The other actuarial body in this country, the Faculty of Actuaries, does not examine in non-life insurance.

In response to the substantial growth in actuarial activity in this field, the Institute of Actuaries is currently issuing its first guidance note on general insurance (GN12), which will also cover actuarial involvement in reinsurance. This guidance note is being issued jointly with the Faculty of Actuaries: evidence that progress is being made at the professional level to recognise the increasing role of actuaries in reinsurance.

Why has this increase in demand taken place so suddenly? In reality the need for actuaries has not changed, but the market's awareness of the role of actuaries has. Running a successful reinsurance operation requires input from a variety of skills. The days when the underwriter did everything are long gone. Today, unlike his life counterpart who has a more dominant role, the reinsurance actuary has to work alongside other professionals, such as underwriters or claims personnel.

His role is crucial. As a starting point, he must have a full understanding of the mechanics of the business that he is studying. It simply is not possible for the non-life actuary just to apply actuarial techniques blindly. Long-tail reinsurance is an area where a little knowledge can be very dangerous, and applies as much to the actuary as to the underwriter.

It is important that actuaries have experience in the field before taking any major decisions. They must ensure that they keep right up-to-date regarding any changes in market practice. For example, practising actuaries must be aware of how the introduction of claims-made forms will substantially alter development patterns. It is up to the actuary to keep himself informed of such changes: no one else will.

Clearly, the number of actuaries who do understand non-life reinsurance is limited, and is one of the reasons why the demand for actuaries in the reinsurance field is likely to outstrip supply for the next few years. It will take some years to increase the numbers, but in the meantime there is no sign that the demand is likely to slacken off. Indeed, all the indications are that it is increasing. The problem is further exacerbated by the general shortage of actuaries in all fields, and by increased competition for maths graduates from other professions, such as accountancy.

Much of the early work of London market actuaries was reserving. This tends to be the area that causes concern first. In the longer term, however, the actuary's role in rating is recognised as being more important. After all, the reserves affect only the balance-sheet recognition of results, whereas correct rating actually affects future results.

Nevertheless, accurate reserves are of fundamental importance for rating, especially in the longer tail lines. The reserves need to be as accurate as possible to avoid over- or under-pricing. In this respect, non-life is quite different from life assurance, where the role of reserves is to manage the release of surplus. In non-life insurance, reserves are a fundamental measure of what is actually happening.

The non-life actuary also analyses distributions of claims by layer, which is of fundamental importance for the rating of excess of loss insurance. Large risks, where the data are sufficiently comprehensive to have some credibility (even if not 100 per cent) is another expanding area. Most medical malpractice reinsurance business in London now has the benefit of an actuarial report, at least on the primary business. Another area requiring actuarial expertise is product and policy design. This is an adjunct to rating but includes analysis of methods of sharing the risk between the insurer and the insured, including retrospective rating techniques.

There is also an actuarial involvement in planning, which includes analysis of capital requirements. Solvency margins, as conventially calculated, do not usually reflect the real risk undertaken by a reinsurance company and more sophisticated analytical technicals are therefore necessary.

One of the actuary's major problems is the lack of available data. They have very little in the public domain to go on by way of publishing statistics. The Reinsurance Association of America (RAA) publishes run-off statistics for US reinsurance companies. It is essential reading for all actuaries in the US casualty market, but requires some skill in application.

For lines other than US Casualty, the Reinsurance Offices Association (ROA) is looking at the possibility of producing statistics, but it will probably be some years before this sees the light of day. The data are likely to be of more use for reserving rather than rating, because of the broad base definition. Consequently, in most cases, the actuary is required to try to develop his own data.

This normally takes some time to build up. Apart from a few specialist areas, many companies or syndicates would not have a sufficiently broad base to allow them to rely on their own data. Hence this represents an area where a consultant with broader experience can be of great assistance. The consultant actuary can often more than offset the disadvantages of not knowing the account as intimately as the in-house actuary.

On top of all his technical expertise, the reinsurance actuary needs another skill. Because he still needs to interrelate with other skills to a certain extent, it is important that he be capable of expressing himself clearly. The underwriter or claims official takes it for granted that the actuary knows the tools of his trade. What is paramount for them, is that he is able to state his conclusions in insurance terms.

Most actuarial investigations in the reinsurance area highlight areas of uncertainty. These need to be discussed openly with claims officials and/or underwriters, to obtain all the necessary input to make the correct decisions. The underwriter wants to know what the answer means in terms of underwriting criteria, not complicated mathematical formulae. Hence the need for effective communication skills all round.

What has an actuary to offer that a statistician or similar person has not. The combination of probability, statistics, finance and investment is an important part of an actuary's training. Statisticians often become too heavily involved in the figures at the expense of other issues. The actuary will be much less inclined to venture into fields in which he does not have relevant experience on the basis of an analysis of the numbers alone.

It is also likely that some form of legal/formal actuarial certification will be required for the reserves of reinsurance companies in the foreseeable future. This is already a fact in many territories, including North America, and countries such as Italy and Finland. Indeed, given that the current returns are totally inadequate to analyse the financial situation of most reinsurance companies, legal certification is probably the only way that the Department of Trade and Industry can hope to control the future solvency of the reinsurance market.

John Ryan
Tillinghast

OPINIONS DIFFER widely about the ultimate cost of cleaning up the thousands of dump-sites used in the US this century to dispose of hazardous wastes. But most observers agree that it will run into many billions of dollars.
Insurance companies are locked in legal arguments with some US industrial corporations about whether manufacturers which dumped waste should pay for the clean-up - or whether their insurers and the reinsurance industry should foot the bill.
The picture shows workers from the US Government's Environmental Protection Agency cleaning up toxic waste left by a former paint manufacturer in Phoenixville, Pennsylvania

REINSURANCE 8

Life reassurance

Statistics help to identify the risk

THE DOMINATING factor over the past 12 months in the UK life reassurance market has been the growing impact of Aids on life assurance underwriting.

The speed with which Aids (Acquired Immune Deficiency Syndrome) has spread in the US, and the impact of Aids death claims on US life companies, has highlighted the need for urgent underwriting measures to identify potential victims, without involving life companies and life reassurers in high expenses and complicated and lengthy administration.

The reassurance companies operating in the UK have taken the lead in developing what they consider to be necessary underwriting procedures, giving more urgency to the situation than has the industry itself through the Association of British Insurers.

An essential element in any underwriting procedure is the knowledge and statistics to understand and quantify the nature of the risk. Until recently, the reassurance companies undertook to collate the statistics relating to Aids, thereby combining their collective experience. In addition, they acted as a research library, collecting all relevant information on Aids worldwide. In this respect, the reassurers, being part of multinational groups, had the necessary information networks to monitor the field.

Now the collation of statistics has been taken over by the Association of British Insurers, the main trade association of insurance companies. Both the Abi and the Institute of Actuaries have set up working parties to study aspects of Aids. Actuaries and underwriters working in reassurance companies are well represented on these comittees.

The reassurers are now able to give more consideration to the necessary underwriting aspects. Here the reasurance companies are setting the lead for the direct life companies, well ahead of recommendations from the Abi.

The reasurance companies have far more to lose through a massive rise in Aids death claims. Most of the business of the direct writing life companies is savings business. The reassurance companies, on the other hand, are solely involved in life risk business.

The prime requirement in life underwriting is to indentify any high-risk group, from questions set out on the proposal form, and then to seek further information through a medical examination or from a report from the proposer's own doctor. This enables the bulk of proposals to be dealt with simply and quickly, without the need for a medical, thus keeping down costs and therefore premiums. The alternative course, of sending everyone for medical examination, would not only send prices soaring but would result in adminstration chaos on a par with that experienced by stockbrokers.

So it is necessary to word the relevant questions on the proposal in such a way that the replies enable an underwriter to proceed further. With questions relating to a person's heart condition, this is straightforward. It is far trickier designing the correct questions to identfy potential Aids victims. The reassurers have been instrumental in designing the form of words recommended by the Abi, and which is now being used by most life companies.

This asks whether the proposer has been counselled or medically advised about Aids or any sexually transmitted disease, and whether the proposer has had an Aids blood test.

The reassurers, however, feel that this does not go far enough - even though the British Medical Association and the medical profession feel that it goes too far, in that it could discourage people from seeking medical help.

Since Aids is a sexually-transmitted disease, underwriters need to know details of the proposer's lifestyle - questions that life companies have not asked directly in the past. Where it is relevant, life companies have relied on this being revealed at a medical examination or on the medical report. Now, doctors are refusing to answer such questions, so life companies are being forced to ask the proposed life direct.

The reassurance companies have designed a suplementary questionnaire to be filled in by certain categories of person, mainly single men, under a confidential cover, followed up where necessary by a medical examination. The reassurers have also persuaded the life companies to seek automatic blood tests on proposers where the cover is at least £250,000.

To date, very few life companies have adopted this practice universally. But reassurance companies are asking life companies to get this information on reasurance cases, especially on one-off facultative business where the reassurer is able to lay down conditions.

In dealing with Aids, the reassurers have shown a remarkable degree of uniformity, whereas, in all other aspects competition for reasurance, business is cut-throat. This is resulting in keen pricing for business, which is favourable for the direct life companies.

Their contracts are still sold very much on their investment performance, with little attention being paid by the investor to the cost of providing life cover. When it comes to reassuring the life risk, the direct companies can shop around for the keenest prices. However, reassurers are now tightening up on some of the terms under which they offer reassurance, particulaly on giving guarantees of future mortality rates.

Life companies on certain contracts, especially universal life type plans, reserve the right to review the mortality charge at periodic intervals. Reassurance companies are now doing the same.

However, marketing conditions are currently buoyant for the reassurers. Life companies are enjoying record levels of sales; and, among the growth sectors, sales of protection contracts figure prominently. Reassurers get much of their business from these types of contract.

Nevertheless, since the only ways a reassurer can increase business are either to take it from competitors, or to encourage client life companies to increase their business, the reassurers are still giving considerable backing services to clients. This takes the form of marketing advice, product design and general financing help, particularly for the smaller companies.

Nevertheless, the spectre of Aids is going to hang over the life reassurance industry for at least the next five years.

Eric Short

Market standards

Trading with a 'straight bat'

THIS AUTUMN, in the weeks between the Monte Carlo rendez-vous and the start of the 1988 renewal season, a small team of London company underwriters will be starting work on what could be a long, arduous task - the development of "market standards" to govern the trading practices of London's reinsurance community.

Launched by the Reinsurance Offices Association (ROA) this spring, the project is long overdue, according to Mr Brian Prevost, the ROA's deputy chairman.

"In the insurance industry - and particularly the reinsurance part - it is essential that everybody plays with a straight bat," he says.

The problem, aggravated perhaps by the informal, face-to-face negotiating style of the London market, is the lack of clear guidelines about the terms on which brokers and reinsurers should do business.

True, there is no shortage of legal precedents defining their duties and responsibilities to each other, and their clients. But what Mr Prevost wants now is a code of practice which can help forestall the tortuous disputes which he says can emerge when parties to a reinsurance deal disagree about issues like the timing of premium or claims payments, about how to introduce new clauses to old contract forms.

"We are all in the same business of striving to serve our clients, says Mr Prevost who knows both sides of the industry. He was a Sedgwick Forbes broker for 27 years, but is now chief executive of Swiss Reinsurance (UK). "Our mutual dilemma is that we have never committed ourselves to try to reach a mutual understanding on how we want to handle our business together."

At present, he argues, it is impossible to judge whether behaviour by brokers or underwriters falls short of what it should be - because there are no norms establishing best practice.

The ROA market standards project "will not be a short-term thing," Mr Prevost says. The first step, he says, is for the ROA's working party - which was created this spring and summer - to begin "trying to get something basic down on paper." Its terms of reference have now been agreed and are as follows:

- To study and report on the handling of reinsurance and retrocession business transacted in the London market through the intermediary of brokers.
- To define the duties and responsibilities of brokers and reinsurers in the placing of new and renewal business, and in the servicing of business, including the handling of claims and the run-off of cancelled contracts.
- In the light of the above, to identify deficiencies in present practicies and systems and to recommend ways in which these could be remedied or reduced and the system improved in the interests of the market as a whole.
- The ultimate objective is to establish codes of practice which will enhance the standards of service provided within the market and to its cedants.

Once some basic thoughts on the issues have been produced, the ROA aims to widen the circle of people consulted, which at some stage will include Lloyd's underwriters. The aim is to take the process gradually "so that the end result will be acceptable to everyone", Mr Prevost says.

He has already made it clear that the ROA is fully open to what he calls "constructive liaison" with the London Broker's Reinsurance Committee, the Lloyd's Underwriters Non-Marine Association and the Policy Signing and Accounting Centre (PSAC).

He also hopes the project can run in conjunction with the parallel moves by Lloyd's to update regulation of Lloyd's brokers. Lloyd's is planning to publish later this year its consultative document on broker regulation.

Nick Bunker

The largest professional reinsurers in 1984

Company	Country	Net premiums in m. of loc. curr.	in US-$m.
Munich Re	W. Germany	9,652.9	3,068.4
Swiss Re Group[1])	Switzerland	6,552.0	2,534.6
General Re Group[1])	USA	1,590.4	1,590.4
Employers Re Group[1])	USA	628.4	628.4
Mercantile & General Re Group[1])	Great Britain	511.5	591.5
Gerling Group[1])	W. Germany	1,793.4	569.7
Prudential Re group[1])	USA	450.4	450.4
American Re	USA	441.5	441.5
SCOR (Société Commerciale de Réassurance)	France	3,816.5	397.9
Cologne Re	W. Germany	1,202.8	382.1
Frankona Re	W. Germany	1,107.2	351.7
Toa Fire & Marine Re	Japan	79,093.0	315.0
Hanover Re	W. Germany	890.6	282.9
New York Insurance Exchange	USA	218.0	218.0
Netherlands Reins. Group[1])	Netherlands	762.7	214.9

[1]) incl. all subsidiary reinsurance companies, excl. direct insurance companies Source: Sigma Swiss Re

1998 peak for Aids

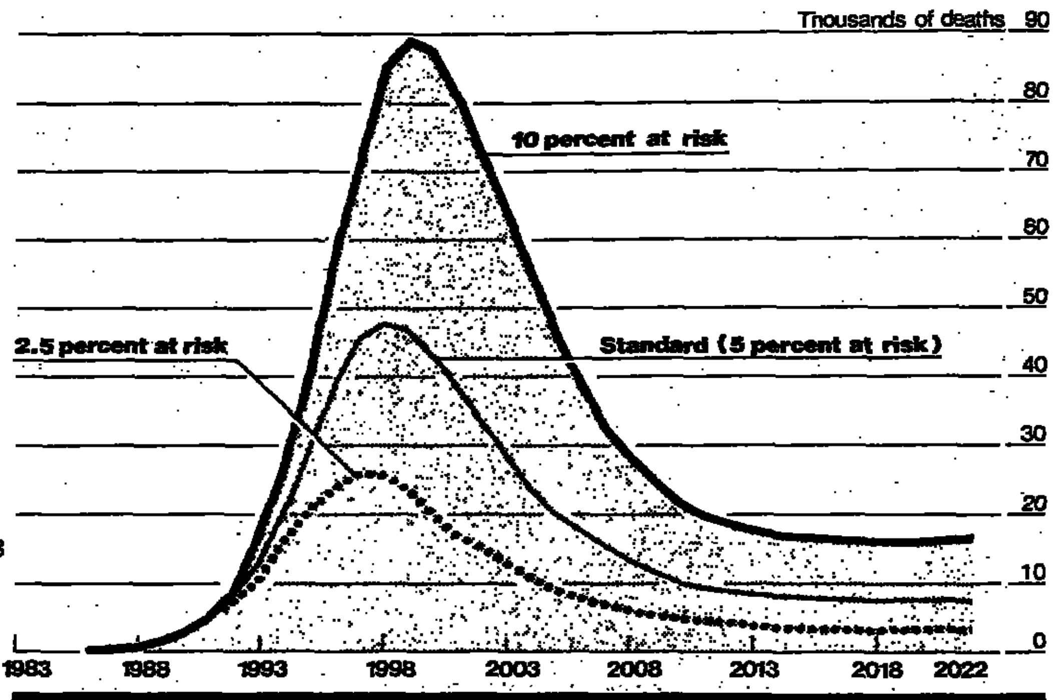
The number of deaths from AIDS in the UK could peak at 48,000 in 1998, then fall and level out, according to a study by Prof David Wilkie, one of Britain's most distinguished actuarial scientists.

The graph is one of a number of illustrations contained in a preliminary memorandum on Aids produced by Prof Wilkie in July, and published by R.Watson & Sons, the consulting actuaries. It is based on what Prof Wilkie calls a "plausible, albeit speculative" mathematical model developed from studies by him and by his wife, a research psychologist who deals with haemophiliacs.

It shows the number of males who could be expected to die of Aids each year between now and 2022. The three lines on the graph each represent an actuarial projection based on different assumptions about the percentage of the population at risk from the disease because they are homosexual.

Projection A - which yields the figure of 48,000 deaths in 1998 - assumes that five per cent are at risk, whether because they are homosexual or for some other reasons. Projection B assumes that 10 per cent are at risk, and Projection C that 2.5 per cent are in the risk category.

Nick Bunker



SECTION IV

FINANCIAL TIMES SURVEY

With very little manufacturing industry, this British colony relies heavily on tourism and international business for its prosperity. The performance of both was disappointing in the early 1980s but they are now performing healthily, reports **Andrew Baxter**.

Trading on its position

SIX HUNDRED miles from its nearest neighbours on the eastern seaboard of the US lies a small, subtropical island of 56,000 people engaged in building a *sophisticated service* economy geared to the demands of the late twentieth century - but with its roots going back to the early seventeenth century.

Bermuda, Britain's oldest self-governing colony, is out on its own in the middle of the Atlantic, about 1,000 miles from the Bahamas with which it is often confused, and separated by some 3,500 miles of ocean from its mother country. Little wonder, therefore, that Bermudians have learnt to stand on their own feet, adapt to circumstances, and make the most of their island's physical and geopolitical assets.

With virtually no raw materials of its own, Bermuda has always had to look to the services it can offer during the past 378 years of continuous settlement. The "customers" over that period have ranged from entrepreneurs seeking a pleasant, free-wheeling environment for making money, to governments alert to the island's strategic importance. In a sense, therefore, Bermuda has always been trading on its position.

Bermuda's present-day fortunes, however, are heavily reliant on a course that was set after World War Two, and from which there is no turning back. Two industries, tourism and offshore business, provide the bedrock for the country's prosperity, and the bulk, directly and indirectly, of a tiny $1.3bn economy.

To ensure that Bermuda maintains one of the world's highest standards of living - per capita income of $20,000 is on a par with the most prosperous US states - the island has to continue to safeguard these two industries' future development. It is too late, and hardly appropriate environmentally, to develop a manufacturing base, and with 3,000 inhabitants per square mile there is no room anyway.

Events in the 1980s, however, have stressed the extent to which the health of the two core industries can be affected by matters beyond the island's control. By 1985/86, Bermuda's external demand (tourism, international business and other goods and services exported) was down about 9 per cent in real terms from 1980/81.

The problems of the insurance industry worldwide brought a marked contraction in the activities of Bermuda's captive insurers, and hence employment in the sector. Meanwhile the strength of the dollar until late 1985 encouraged US tourists to travel overseas, where their money went further than in the British colony, where the Bermudan dollar is pegged at par with the US currency.

Then last year Bermuda had a stroke of luck. Tourist arrivals rose to near record levels as the "Gadaffi factor" discouraged Americans from visiting Europe. With 75 per cent of Bermudan employment influenced in some way by tourism, the effects on domestic economic activity have already been felt, while Bermuda's balance of payments rebounded to a $70m current account surplus in 1986 after deficits in the two previous years.

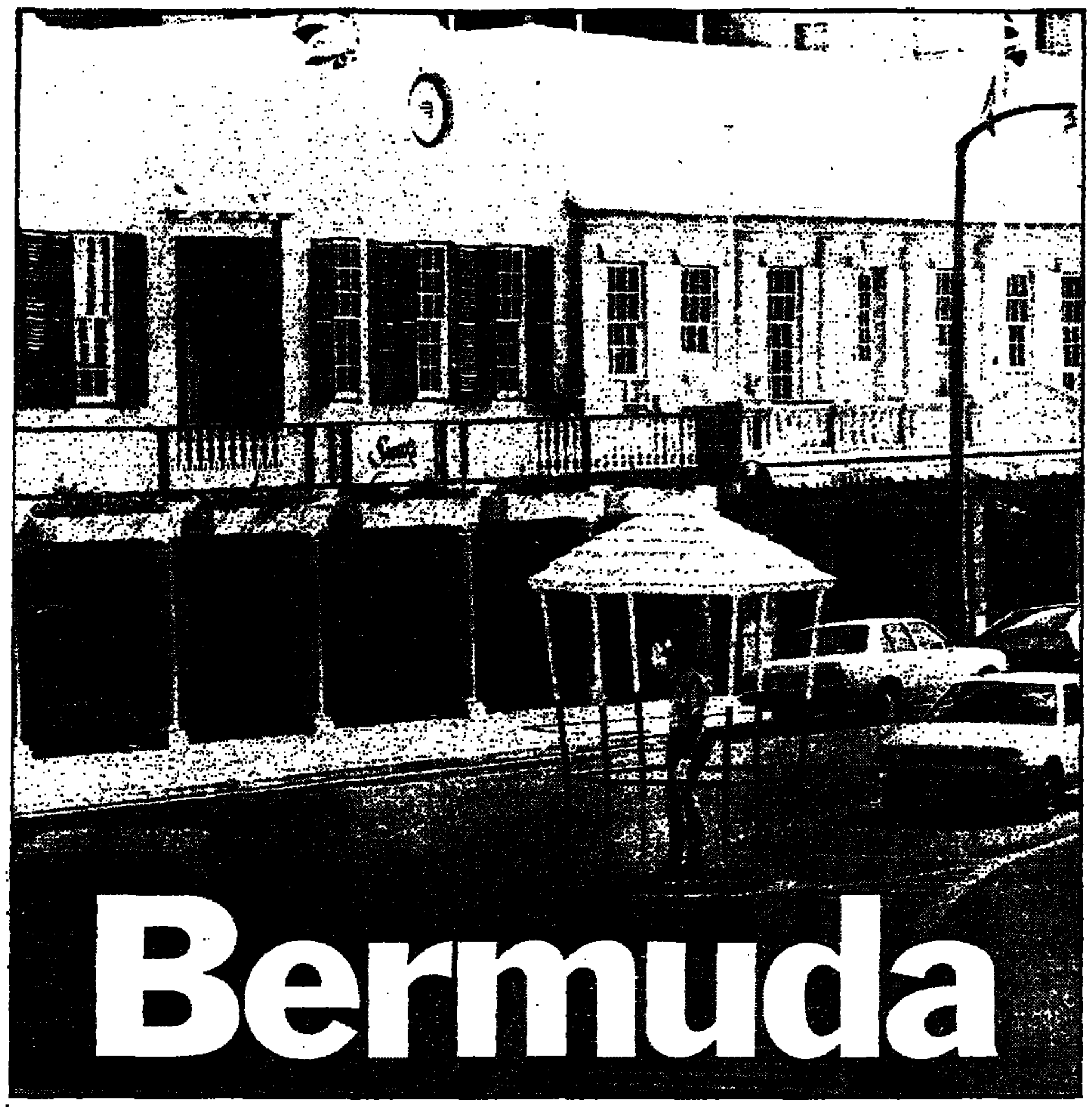
The recovery is continuing this year, with words such as "booming" and "buoyant" on the lips of politicians and businessmen, including those in insurance, where the failure of the US to ratify its tax treaty with the colony continues to inject an element of uncertainty. Mr John Swan, Bermuda's Premier since 1982, says: "The country has never been in better shape... This year could be the best that the country's ever had."

The island's businessmen are apt to describe the dual axis on which the island's prosperity is based as "fickle," given its dependence on external factors. Lately, however, Bermuda has been attempting to take the initiative in ensuring that less is left to chance. Tourism marketing has been revamped with a view to increasing visitor numbers in the off-peak months and reducing dependence on visitors from the eastern seaboard of the US.

In international business, while Bermuda's status as a low-tax jurisdiction may originally have encouraged offshore companies to establish a presence - physical or otherwise - tax advantages are now marketed as just one element in a package of benefits - good communications, sophisticated banking and professional infrastructure, proximity to the US, not to mention excellent beaches and golf courses - to attract new businesses.

Tourist arrivals this year may exceed 1980's record total of nearly 610,000, while offshore companies on Bermuda's register rose from 6,349 at the end of 1986 to 6,490 at June 30. But, as is constantly pointed out by Bermudians, it is quality rather than quantity that counts if Bermuda is to maintain its high standard of living.

A crucial element for maintaining competitiveness is value for money. Bermuda is already a high-cost destination for the tourist or offshore business, and does not pretend to be the cheapest of the low-tax jurisdictions or up-market holiday centres.



Bermuda

Front Street: Bermuda is likely to keep its aura of tropicalised Britishness

CONTENTS

Some businessmen believe hotel prices are, as Mr Donald Lines, chief general manager of Bank of Bermuda, puts it, "pressing the top edge of what is acceptable". Land prices and labour costs, too, are rising faster than the general level of inflation.

Addressing these problems will require continued co-operation between government, business and the population at large. The links between the first two have always been close - too close for some critics whose complaints about the *Bermudan old school tie* network still have some force - and are an inevitable result of the days before the 1968 Constitution when white business interests held sway.

But the system has its advantages on a *small island* where, to an extent, everyone has to pull together. This year, for example, proposals for an overhaul of banking and financial services regulation have emerged relatively quickly following general agreement that a more rigorous approach was needed.

For Mr Swan and his United Bermuda Party, the challenge is to preserve the prosperity of its core businesses, and at the same time fulfil the growing expectations of a community that is getting used to success.

Mr Swan talks of "attempting to address some of the social issues, without discounting efforts to build the economic base". In a country where 60 per cent of the population is black, and which was essentially segregated until the 1960s, social issues pertain largely to the welfare of the black community and the development of its role in society.

Undoubtedly great strides have been made over the past 20 years, and Mr Swan, Bermuda's first black premier, can justifiably take credit for opening society up to advancement for blacks, particularly young professionals, in the civil service, banking and in government.

However, the key positions of power in business still remain in white hands. Mr Frederick Wade, leader of the opposition Progressive Labour Party which draws its support almost totally from the black community, says full integration of schools still has to be achieved. "There is integration at the workplace, but at five o'clock they still go their separate ways," he adds.

Mr Swan acknowledges that the handling of race relations "still requires a great deal of sensitivity". He sees more, and improved education, as playing an important part in addressing this, and the related problem of Bermuda's skills shortage. With *a stable, if slightly declining,* population, and a workforce of some 26,000 Bermudians to fill 34,000 jobs, non-Bermudian labour, whether for the menial jobs that Bermudians do not want or the professional and financial posts that are having to be filled by expensive North American and UK imports, is a permanent feature of the island's employment market.

Many governments, of course, would readily choose to grapple with overemployment rather than unemployment, but on a small island the tightness of the labour market represents a further constraint on growth.

Mr Swan's guiding principles are based on an essentially pragmatic conservatism, or "wettism" as one observer put it. As leader of a party which has developed into a coalition of interests, a cautious approach to policy change is inevitable.

Nowhere is this more the case than in constitutional matters and foreign relations. Bermuda's economic success over the past year, and increasing political stability, have raised questions about the need for continued protection of the local economy via exchange rates and interest rate curbs, and revived the thorny question of independence.

Opinions are sharply divided on both issues, and the government has to tread warily. On independence, it is probably fair to say that the issue is being watched more closely in the US, which has important military installations on the island, than in the UK, which takes the line that independence is for Bermuda's people to decide.

Whatever happens, Bermuda is unlikely to lose its aura of tropicalised Britishness - symbolised by the Bermuda shorts worn with British police uniforms but still going deeper than that. This, most Bermudians appear to feel, is worth retaining in some form on an island which relies so heavily on the US to keep the twin wheels of its economy turning.

Little to worry about in the economy, says **Andrew Baxter**

Twin wheels are well oiled

A COMBINATION of historical factors and present-day realities has given the Bermudan economy and monetary system a profile unique not only among offshore business centres but worldwide.

As there is virtually no manufacturing industry, Bermuda relies crucially on tourism and international business for its prosperity and for maintenance of a tenable balance of payments position.

But while both the domestic and offshore business sector operate in a low-tax environment - there is no personal or corporate income tax and no capital gains tax - local companies and individuals are protected from the full effects of world economic trends by exchange controls and interest rate curbs. The maximum rate paid on Bermudan dollar deposits, 7 per cent, goes back to 1876.

Even so, no amount of domestic controls can disguise the fact that Bermuda's fortunes are inextricably linked to those of the US. The Bermudan dollar is pegged at par with its US counterpart, in recognition of the fact that the bulk of Bermuda's trade is with the US. As a side-effect, it also makes life easier for US tourists.

The result is that US dollars circulate freely - particularly in hotels and restaurants used by tourists - despite not being legal tender, by some interpretations of the law.

More importantly, the combined effect of all these factors is to restrict Bermuda's influence over its own fortunes, and expose the island to economic events and swings of sentiment rather less predictable than the tropical storms which occasionally blow through.

Last year, for example, the major reason for the much-improved performance of the Bermudan economy was the upsurge in tourism, producing the best year for visitor arrivals since the record year of 1980.

This largely reflected the weakness of the US dollar and fears over terrorism, both of which encouraged Americans to holiday at, or closer to, home.

The result was a surplus of $326m in the travel component of the balance of payments, up from $272m in 1985. Inevitably, higher tourist numbers and increased domestic spending sucked in more imports, and the merchandise trade deficit rose from $348m to $366m.

These factors helped Bermuda post a creditable $70m current account surplus last year, which compares with deficits of $23m and $4m in 1984 and 1985 respectively.

Real gross domestic product rose by a provisional 2.9 per cent in 1986/87, against 2.7 per cent in the previous financial year, when temporary hotel closures had a negative effect, and a fall of 2.3 per cent in 1984/85.

GNP was a provisional $1.26bn for 1986/87 and Dr Clarence James, Finance Minister, is projecting a further rise of 2 per cent in the current year.

The signs are, however, that this could be exceeded. Tourist arrivals appear to be running well ahead of last year's levels and businessmen say the domestic economy is booming. Optimism is increasing in the international business sector, particularly insurance, where two years of marking time have followed some well-publicised financial disasters.

This bodes well for the balance of payments, and Mr Nicholas Weinreb, Dr James' economic adviser, sees no reason why the current account should not be in surplus by $50m-70m this year.

External factors, however, can have a negative effect. Bermuda's annual inflation rate, which had reached a trough of 3 per cent in August 1985, had risen to 4.3 per cent by the end of last year.

This was due to what the Bermuda Monetary Authority in its 1986 report calls "an unwinding of the effects which combined to produce a very favourable effect for containing inflation, principally the strength of the dollar and the weakness of oil and other commodity prices". Bermuda has to import all these items.

Balance of Payments

Current account balance $ Millions

1982	+13.9
1983	+26.0
1984	−23.0
1985	− 4.0
1986	+70.0

Souce: Government & Statistical Dept.

This year the rate of increase in the goods component of the consumer price index has fallen from an annual level of 4.8 per cent in March to 4.5 per cent in June. The greater stability of the US dollar, earlier in the year, helped, but any further recovery in oil prices or weakening of the US currency could quickly reverse the trend.

In contrast, the increase in the cost of services was 4 per cent in June against 3.3 per cent in March. This partly reflects seasonal factors such as a 6.1 rise in restaurant prices to catch the high season.

Indeed, with the rise in the index as a whole running at 4.3 per cent, there would appear to be little for Bermuda to worry about. In an interview, Dr James said that the aim was to keep Bermuda's inflation rate at approximately the same level as that for its major trading partners.

However, Mr Weinreb noted that Bermuda's perennial labour shortage, which pushes up salaries of skilled workers, and rising land prices, would produce a 6-7 per cent increase in the costs that matter for the export-based section of the economy.

The cost of services is a constant complaint of Bermudan bankers and business leaders, who are acutely aware of the need to remain competitive with other offshore tax jurisdictions and tourist destinations.

Wage settlements in the past year have been running at around 6-7 per cent in both the private and public sectors, although the figures are usually somewhat lower in the second year of each agreement.

Mr Joseph Johnson, president of the Bermuda Chamber of Commerce and a leading figure in the island's insurance industry, said his single most important concern about the economy was rising costs, especially salaries, which had to be passed on to the consumer.

"We should always be concerned about pricing ourselves out of the market." He adds, however, "we haven't done that yet".

Dr James himself, in his Budget speech for 1977/78, said: "Bermuda is already known as a high-cost centre and I am afraid that if we as a community simply exploit the healthier economic climate we will reap benefits only in the short-term, while sowing the seeds for far poorer long-term prospects than might otherwise be the case."

Meanwhile, with no central bank to change currency or interest rates, Dr James has resorted to fiscal means to take advantage of the recent economic growth while addressing some of the problems of success.

In the recent Budget he reduced the duty on fuel imported by Belco, the island's electric utility, and the duty on spare parts for commercial boats and passenger cars. He also extended a duty concession on wool clothing to all clothing made of natural fibres and leather.


Dr James, left, and Mr Johnson

These moves, costing $3.1m at most in lost customs duties, are intended to stimulate business activity and keep inflation in check.

At the same time, domestic liquidity has risen as a result of the recent economic upturn, but also because falling interest rates overseas have made the domestic market look more attractive for lenders. Mortgages outstanding rose by $30m to $165m in 1986. To sop up the excess liquidity, the government has switched some of its borrowings into Bermudan dollars.

As for the government's own revenues and spending, Dr James says Bermuda has been attempting to build up a modest surplus in its consolidated fund by accruing some of the excess of revenue over current expenditure, rather than spending it all on capital programmes.

Nevertheless, capital spending jumped sharply last year, from $18.4m in 1985/86 to an estimated $42.7m. This partly reflects neglect of basic infrastructural investment in the early 1970s, and Dr James observes that with the range of capital projects now being demanded by the public, "you can easily get to $300m in projected costs".

Capacity constraints in the construction sector make such spending impossible unless phased over long periods, and Dr James said capital spending would average $25m-30m over the next two years against about $25m in recent periods.

Moreover, with a long-term aim to eliminate public debt, it is hoped to avoid borrowing further to pay for capital investment. There is a legal limit of $100m on long-term government borrowing, and, until this year, one $75m multiple-option tender panel facility for the island's housing corporation.

Of this, $20m has been repaid with proceeds from a new $40m facility arranged for the colony by N M Rothschild - the first foreign borrowing by the government in its own name.

The rest will be used to finance the construction of a refuse incinerator, which together with the much-needed redevelopment of Bermuda's civil air terminal will cost some $47m. These projects cannot by nature be phased beyond the next two to three years.

Revenues this year are estimated at $251.5m against $246.6m in 1986/87, while current spending is projected to rise from $202.8m to $220.2m. Much of the increase in recent current spending has come in health and social services, which this year is expected to account for $48.1m or 22 per cent of the spending total.

The rise in total spending has inevitably sparked concern in the business community about government's increasing share of GDP, with the percentage rising from 20.2 per cent in 1981/82 to 23.8 per cent in 1986/87.

Dr James said this reflected the fact that government did not reduce its activity in the years prior to 1986 when the economy was weak. Taxes had been raised to allow the government to carry out the tasks it deemed necessary.

The recent duty cuts go some way to roll back increases that had taken taxes as a percentage of GNP to 19.4 per cent last year, considered high by Bermuda standards. However, although the economic upturn has given Dr James more leeway to stimulate activity, balanced budgets and "sound finance" will continue to provide the framework for economic policy.

International business

Bringing into focus a reclusive image

WITH ABOUT 75 per cent of all jobs in Bermuda influenced in some form by tourism, few Bermudians can be unaware of the economic impact of one of the twin pillars of the island's balance of payments.

The other - offshore or international business - is by nature less obtrusive and, in the opinion of many bankers, lawyers and accountants whose livelihoods depend to a considerable extent upon it, less well understood.

This has prompted plans by the business community to launch a public relations exercise designed to increase ordinary Bermudians' awareness of the international business sector and its economic benefits. "It's not that there's an image problem. They just don't have an image," said one banker.

A report commissioned by the Ministry of Finance, and written by Prof Brian Archer of the University of Surrey, should give some statistical backing to the exercise.

Published this summer, it is the first systematic attempt to assess the direct and indirect impact of a sector which is by definition intangible and reclusive. After all, of some 6,000 international businesses registered, fewer than 300 have a physical presence on the island, and more than half of these are insurance-related.

The first offshore company was established in 1935, but the main period of growth has been in the past 15 years. The prime focus of the sector has also changed over the years, with corporate business supplanting trust work for wealthy individuals.

The two main types of businesses in the sector are "exempted" companies, which are exempted from the 60 per cent local ownership required for other companies. While incorporated in Bermuda, they can be formed for a variety of purposes, but not commercial banking.

Then there are "permit" companies, which are registered elsewhere, for example in another offshore jurisdiction, but can otherwise operate like exempted companies. Both types are barred from carrying on purely local business.

Businesses Registered in Bermuda

New Registration, International

	Local(A)	Exempted	Exempted Partnership	Non-Resident	Non-Resident Insurance
1982	77	478	7	48	—
1983	94	518	8	37	—
1984	95	458	6	67	—
1985	119	535	10	64	—
1986	94	591	14	54	2

Number on Register at End of Year(B), International

	Local(A)	Exempted	Exempted Partnership	Non-Resident	Non-Resident Insurance
1982	1,005	4,959	42	606	30
1983	1,066	5,162	47	619	30
1984	1,096	5,250	50	611	27
1985	1,178	5,376	57	593	27
1986	1,238	5,531	71	545	29

(A) Does not include unincorporated enterprises.
(B) Net of Companies in process of liquidation.

Source: Register of Companies.
Research: Rivka Nachoma.

At the end of 1985 there were 5,561 exempted companies, of which the largest single group was investment holding companies (1,686), followed by insurance companies (932), commercial trading companies (469) and shipping concerns (445).

According to the Archer report, international companies spent $232.6m in Bermuda in 1985. Given the greater physical presence of the insurance companies, it is not surprising that they account for $125.6m of this.

All but $14.5m of this spending, which Mr Archer calls a direct contribution to Bermuda's invisible exports, went to the private sector.

However, as a large part of this money is respent in Bermuda, it "sets in motion a further flow of dollars through the economic system, creating further business activity, income, employment and public sector revenue," says the report.

This multiplier effect is largely the result of the $86m in bank and professional fees paid by the offshore sector, and the $81.9m paid out n wages and salaries (1985 figures).

This is received as revenue by local companies and as household income by individual Bermudians. Mr Archer calculates total business revenues ultimately generated by the international sector to be $576m.

The impact on employment also reflects the multiplier effect. Direct employment in international companies averaged about 2,200 in 1985, against a total workforce of some 33,000. Bermudians comprised 64 per cent of workers in the sector.

But Mr Archer states that about one-third of the 1,824 employees of Bermuda's three banks in 1985 would have lost their jobs in the absence of international company business.

As for the professions, removal of international company business would range from damaging to devastating.

Bermudan accountants' staff would fall by more than 70 per cent, lawyers' by more than half and the management and insurance management sector would be decimated. Mr Archer calculates total employment generation by the offshore sector, including secondary effects, at 5,980 jobs.

Andrew Baxter

Politics

Stability encourages debate

Mr John Swan (left), Mr C V Woolridge, Viscount Dunrossil

IN JANUARY, Mr John Swan, a 52-year-old self-made millionaire, celebrated five years as Bermuda's Premier and leader of the United Bermuda Party, which has held sway throughout 20 years of party-political democracy.

The UBP has 31 seats out of 40 in Bermuda's House of Assembly, while the Progressive Labour Party, the official opposition, is only slowly recovering from a serious split in the mid-1980s, which saw its representation fall to seven seats in the 1985 general election, compared with 18 in 1980.

Not, on the face of it, a promising scenario for lively politics. But that does not stop the electorate of some 30,000 - little more than half the size of many UK constituencies - their representatives, and a lively, if occasionally over-zealous, press discussing everything from weighty constitutional issues to tourist-season traffic problems.

Mr Swan, too, would appear at first glance to be in a strong position. The island's first black Premier has made considerable progress in opening the upper echelons of Bermudan politics and the civil service to the country's middle-class blacks, thus accelerating the transformation of the UBP from what was once purely the champion of the white business class to a more broadly-based spectrum of interests.

He also has the reassuring knowledge that he has presided over a strong economic recovery, which has laid the foundations for progress on racial integration and hence stability. It was, after all, as recently as 1980/81 that Bermuda was hit by riots and industrial confrontation.

The problem, however, for Mr Swan is that this stability, and increased confidence over future economic and social development, is also encouraging debate on the island's constitution, foreign relations and financial regulations. It is in these areas that the UBP's coalition of sometimes widely-opposing views is clearly evident.

There is a saying in Bermuda that the real power on the island resides with the so-called "40 thieves" or white business, followed by the City of Hamilton, with the UBP caucus third and the government itself in fourth place.

This exaggerates, but like many such observations is not entirely untrue, particularly as regards the UBP caucus - which groups the party's MPs - and its relations with the government. Last month's caucus meeting to discuss easing exchange controls showed that some party backbenchers are strongly opposed to the very cautious steps taken by the government and were hoping for more thorough-going reforms. By all accounts, they were not afraid to say so.

The issue of possible independence for Bermuda, which is the UK's oldest self-governing colony, promises to be even more contentious. Despite being proposed by the PLP as long ago as 1963, it has largely remained on the back-burner since then, but now threatens to generate some heat.

Both opposition parties, the PLP and the two-member National Liberal Party which emerged from the ructions within the PLP, support independence, but not even the PLP has ventured to risk electoral defeat by making it part of its campaign platform. Polls suggest at least 60 per cent of the electorate oppose it.

Why, then, has it emerged as an issue which, according to Mr CV "Jim" Woolridge, a UBP backbencher and ardent opponent of independence, has split the UBP more seriously than any other? Probably because, as many believe, Mr Swan wishes to be Bermuda's first Prime Minister, the title he would assume if the island went independent.

Mr Swan, however, is too astute a politician to force a quicker pace than his party or the country could handle. He will say, however, that, "I'm satisfied that there is a genuine desire across the community .....to know more about the process [of going independent] and the options that might be available to us. What would be the consequences - economic and social - and long- and short-term liabilities?"

These considerations have been looked at over the past year by a UBP independence review committee, headed by former-premier Sir John Sharpe and created after last year's defeat of a private member's bill calling for a referendum on the issue. The motion, sponsored by Mr Hugh Richardson, president of the Senate or upper house, never reached debate in the House of Assembly, but served to refocus attention on an issue which was the subject of a 1979 White Paper.

The committee's report, out last month, points out that while external affairs, defence, internal security and the police were areas "reserved" for the UK government in the 1968 constitution, in practice there has been considerable delegation of these duties from the Governor, currently career diplomat Viscount Dunrossil, to the Bermudan government. The colony, for example, is able to carry out its own negotiations with the US on a tax treaty and also handles most administration of the police.

This provides ammunition for both supporters and opponents of independence. On the one hand it is argued that Bermuda has gained the experience necessary to make independence work better than has been the case elsewhere. Others counter that it demonstrates the extent to which Bermuda is self-governing anyway. "We're independent in every sense of the word," says Mr Woolridge. "I have to ask myself what real benefits we would gain."

For most Bermudians, the key questions of security, and the related cost issue, are paramount. The present defence treaty, signed between the US and the UK in 1941, gives Bermuda shelter under the Nato umbrella at no cost. In return for a 99-year lease, the US has a naval base and air station on the island. Under a separate agreement it also runs the airport which is used for civil aviation.

Mr Swan says independence would not affect the defence treaties. Mr Frederick Wade, PLP leader, says that if the party were in power after independence, it would be prepared to renegotiate them to form the basis of the island's defence. There is considerable debate, too, over the means by which independence might be achieved. Mr Wade wants a general election to be fought on the issue, so that "everything is up for grabs". Mr Swan, with more to lose as the incumbent Premier, does not want the issue to be confused with an election.

An independent Bermuda under the PLP would be anathema for white business interests, but there are plenty of older blacks resisting it too. For Mr Swan, there is a danger that the divisions in the UBP over the issue will reduce his room for manouevre on other issues.

Already a loosely-knit group called Concerned Bermudians, which includes several right-wing UBP MPs such as Mr Woolridge, has been formed to fight independence and influence other issues such as tourist policy. This, and the debate within the UBP on matters such as exchange controls, illustrates that Mr Swan at present faces more effective opposition from within his party than from outside. But there is no personality strong enough to make a direct challenge for the premiership.

Mr Wade claims many young professional blacks, who joined the UBP to support Mr Swan rather than the party itself, are now leaving in disenchantment to join the centrist NLP. The PLP is also gradually regaining support among black professionals, he says. However the party has been almost totally unable to broaden its support into the white community, and the UBP continues to be seen by the majority of Bermudians as the natural party of government.

Andrew Baxter

Profile: Sir David Gibbons

Man who wears many hats

Successful Bermudian

BLAZERS AND Bermuda shorts are the most obvious elements of a uniform among leaders of the island's business and political spheres, but hats - of the metaphorical kind - are important, too, on a small island where the two inevitably overlap.

Few people have worn more, or so many at the same time, as Sir David Gibbons, KBE, former Finance Minister, Premier, chairman of the Bermuda Monetary Authority and now chairman of Bank of N.T.Butterfield.

He is the successful Bermudian par excellence - Harvard-educated, chief executive of a major family business empire as well as the bank, and involved in government service of one kind or another since 1948.

His career straddles a period during which Bermuda has been transformed from a racially-segregated society run by and for the benefit of merchants, to the more open, prosperous, reasonably stable, party-political environment today.

And, while being perhaps the most influential member of what has emerged from the merchant class, he was also one of a small group of wealthy Bermudians who realised in the 1960s and 1970s that times had to change, politically, economically and socially.

Sir David's more tangible achievements, however, are on the financial side, as one of the architects of the financial foundation for the island's success - the banking system, tax regime, regulatory structure, and, perhaps most important, balanced budgets.

The story is told of when he visited London as Finance Minister, took the Underground to Westminster and walked to Downing Street for a meeting with Mrs Thatcher. On being formally introduced by Sir Geoffrey Howe, then Chancellor of the Exchequer, Mrs Thatcher expressed astonishment that Sir David had walked. "That, madam, is how we balance our budget," was his reply.

Sir David was born in 1927 into a family which, although established in Bermuda since the early seventeenth century, had until 1916 an absolutely unblemished record of non-achievement, as he puts it.

One forebear had risen to become registrar of the Supreme Court, while another was a sea captain - although a picture found many years later revealed that he skippered a mere 50-footer on the Turks and Caicos salt trade route with a crew of one.

The family's fortunes changed when Edmund Gibbons, Sir David's father, bought 2,000 pairs of surplus naval boots for 1/- and resold them for 2/6d. From there he branched out into men's and boys wear, while Sir David's mother set up a women's wear business which developed into a Hamilton department store.

By the time Sir David returned from the US in the late 1940s as an economist specialising in money and banking, his father had diversified into property. Sir David was put to work in the family business at £10 a week - grievously underpaid, he felt, given his educational background. "I told my father, and he told me I knew nothing about pricing shirts, and that was all I was worth."

At the tender age of 21, Sir David, who was knighted in 1985, joined his first government board, and meanwhile had begun running parts of the family business as it moved into motor dealership, wine and spirits, and insurance.

In 1958, his financial background and friendship with the Butterfield family brought an invitation to join the board of the family bank. The four or five octogenarian board members "suffered me patiently," he recalls.

During the 1960s he played a major part in refocusing and modernising the bank - while simultaneously running two or three family companies - and was vice-chairman of the bank in 1972 when he resigned to contest a parliamentary seat.

He had already served on a string of government boards, and became an MP just four years after Bermuda was given its new constitution enshrining the party-political system. "I was alarmed at the way the national debt was escalating, and went in with the idea of reviewing taxation," he says.

The idea became reality when, as health minister from 1974-75, he introduced an insurance-based health care payments system. He also ended the "archaic" system of non-contributory Civil Service pensions, and then, as Finance Minister from 1975, surprised the nation by announcing that he planned to balance the budget.

In 1977, the United Bermuda Party was seriously split over the pace of social change, and Premier Sir John Sharpe could no longer command full support. Riding on the crest of two balanced budgets, Sir David emerged as a compromise choice. "I was the one people disliked least," he says.

Sir David's premiership, from 1977-82, was not a happy time for the UBP, with support falling to an all-time low in the 1980 election, or for Bermuda, with industrial strife, civil unrest and growing black dissatisfaction.

Sir David recalls, however, that as Premier he enjoyed the pleasure of meeting a lot of people and derived real pleasure from developing the mechanism of government. "I was always a professional and/or technical person."

This style of premiership irritated opponents within and outside the party. A long-time associate says Sir David is "one of the best decision-makers I know. The words 'I'll think about it' are not in his vocabulary." But the inevitable compromises and bureaucracy of politics were alien to him. And kissing babies is not his style.

Sir David himself says that successful heads of government need fire in the belly, which he lacked. "I was much criticised by the opposition for running the government like a board of directors, and I think probably I did."

Symptomatic of this was his retention of the Finance Minister's portfolio throughout his premiership. "With my style of government it worked quite well. But it's not something that's good as a general rule," he notes.

By 1982, the party had decided it needed to have a black leader for sociological reasons, and Sir David stepped down in favour of Mr John Swan, whose candidature he strongly supported. But, in recognition of the importance placed by the electorate on the government's ability to manage the economy, he agreed to stay on as Finance Minister through another election.

In 1984 he left this post to become chairman of the monetary authority, and in May 1986 returned to Bank of N.T.Butterfield as vice-chairman, 14 years after resigning.

Under Sir David, who is now chairman of the bank, Butterfield is going through a similar process of change as occurred during his previous spell at the bank.

He spends up to a third of his time at the bank and the rest as chief executive of Edmund Gibbons Ltd, which employs some 450 people locally in everything from insurance to ice cream, and where his brother Graham, mayor of Hamilton, is chairman. Sir David is also chairman of Bermuda's Economic Council think-tank.

Given the only slowly-relaxing stranglehold of white business interests on the commanding heights of the economy and hence the political scene, it is debatable whether Sir David had more influence on the course of events as Premier than he has now. But most Bermudians would agree with the view that he is a financier first, politician last.

Andrew Baxter

Profile: Mr John Cox

Why Ace won't bid low

HAD IT not been for a telephone call in June 1985, Mr John Cox would by now have been studying hard for a law degree instad of sitting in the chairman's office at Ace Insurance, the newly-formed but already cash-rich excess liability insurer in Bermuda.

Yet the 55-year-old executive is happier than he has ever been and vastly more content than he was in 1982. It was then, as president of the US insurance giant INA Corporation, that he had to perform what he describes as the most unrewarding job in his entire 30-year career—the "termination" of 2,000 employees following INA's merger with Connecticut General. Nine months later, he quit and joined the board of American Can, now Primerica. But not for long.

"Corporate bureaucracy was not for me," says the Ace chairman, lighting up a fat handmade cigar, one of several he uses every day "to help me think."

"I was being paid a lot of money, a base salary of $350,000 and a total package of about $650,000. I remember a *Wall Street Journal* reporter asking me how I could give up that kind of money. But the money was not a motivating factor. Sure, I was financially independent but I was bored."

After 18 months he said goodbye to American Can and applied for a place at law school: "someething I'd always wanted to do."

But the telephone call from the world's largest insurance broking group, Marsh & McLennan, put paid to that. Marsh wanted "a bit of help" with a new scheme it was working on. The scheme was Ace Insurance—a catastrophe insurance specialist, originally called American Casualty Excess until the acronym was adopted to avoid confusion with another excess insurer.

Mr John Cox: 'A cigar helps me think'

Not that there would have been much confusion. Ace, as Mr Cox is fond of telling people, is unique. The policyholder owed company offers liability cover of up to $140m in excess of underlying insurance of $100m. It also provides directors and officers (D&O) liability cover of up to $50m in excess of $25m. But its coverage-starved shareholders cannot buy D&O protection alone. They must first take out a liability policy (the cheapest is $60,000) and then buy the D&O as an endorsement. And Ace require its customers either to put up a reserve equal to a year's premium or buy a three-year prepaid insurance policy.

As for accounts receivable, the two-year-old carrier has none. Premiums are either paid by their due date or the cover lapses. And Ace never negotiates prices.

"If somebody is not happy with our prices, we tell him to go somewhere else," says the combative chairman. "If we cut our price we won't have enough premium to pay the losses."

That Ace has been able to dictate its terms in this fashion is due not only to the shortage of insurance capacity wordwide but also to a fear of exposure to cripplingly high court awards. In short, the insurer helps corporate America sleep at night—another Coxism from the man who counts 23 of the Dow Jones 30 Industrials among his clients.

Corporate Britain, too, he claims, is sleeping easier thanks to Ace. "British Oxygen, Beechams, Fisons, ICI, Lonrho, Burroughs Wellcome—they're all Ace policyholders," says Mr Cox.

Which explains why the insurer, owner by a Caymans-based holding company but operated from Bermuda, has got money coming out of its ears. So much so that it is currently offering to redeem up to $200m-worth of Ace stock from its 242 shareholders.

"We've had the good fortune not to have had one claim since we started so we've got more capital than we need at present. Plus, anyone whose shares are bought back by the company will not be liable to related insurance income tax under the 1986 Tax Reform Act.

"And, even if we spend the full $200m allowed for in the self-tender, we're still going to have more than the minimum capital level of $625m laid down in our byelaws."

Not surprisingly, Mr Cox has no more mountains to climb. He argues that even if Ace had got its product wrong it could have sat back and clipped coupons from its investments until the insurance industry shot itself in the other foot.

"Which it would," he says scathingly of a business which he believes has drifted away from the industries it serves. "That's why Ace is so unique. It started with a clean slate and a new approach."

The approach has paid off. Profits for the first eight months of the company's current financial year were $162m on total premiums of $183m, of which the lion's share came from excess liability policies. Retained earnings for the period were $271.5m, bringing balance sheet assets to $872.4m. But the catastrophic liability game is a risky and unpredictable business in which claims are of low frequency but high severity.

And Ace, as the chairman is quick to point out, will eventually under-employ its capital and have to dish out massive dividends. For the moment, though, Mr Cox is having fun. He flies to Bermuda most weeks from his home in New Jersey and stays at the Hamilton Princess Hotel,

which is owned by Ace policyholder Lonrho. He has a staff of 13 (roughly 21,987 fewer than he had at INA), a salary of $300,000 a year, few constraints and a five-year contract that gives him the option of cutting his working week in half for a $50,000 drop in pay.

"I haven't exercised that option so far and I doubt that I will next year," he says, reaching for another cigar. "The challenge of making it all happen is what keeps me here, not the money. I'll probably gradually reduce the time I put in and retire when Ace's roots are firmer."

And his next major project?

"Baby-sitting. I'm taking 11 days off in September to look after some of my grandchildren."

Roger Scotton

Insurance

Doing what they do best

ONCE UPON a time, Bermuda's reinsurance industry liked to think of itself as the world's third market after London and New York - a smaller, mid-Atlantic version of Lloyd's whose underwriters would often be heard to remark derisively that the British colony was only ever shown the business that nobody else wanted.

But that was in the late seventies and early eighties, before the losses and retrenchments of the big players and a worldwide contraction of capacity had left Bermuda with barely a handful of professional reinsurers still interested in writing commercial-market international reinsurance business.

Nowadays, the industry prefers to think of itself as having safely crawled back into its womb by concentrating on the provision of reinsurance programmes and risk management services to the more than 1,000 captive reinsurers domiciled on the island. With the exception of the specialist carriers, the financial reinsurers and the recently-formed and massively-capitalised liability groups set up over the last two years, the big players are now management groups such as Johnson and Higgins, Marsh and Mclennan and *International* Risk.

"This third market talk was all rubbish in the first place," says Jonathan Crawley, a Lloyd's name and former London market broker who now heads the underwriting arm of Bermuda's only publicly-quoted reinsurer Aneco. "We have now completed our transformation, the dust has settled after some spectacular departures and we're doing what we do best which is looking after captives."

But the island's captive industry, which accounts for the bulk of Bermuda's net premiums of over $8bn and is by far the largest of its kind in the world, has not been entirely trouble-free either. The United States' tax treaty with Barbados, which came into force early last year, worried almost all insurance managers in Hamilton, all that is except two or three who derive a lot of their business from Europe.

The rest feared that a key provision in the treaty exempting Barbados-based insurers from federal excise taxes of up to 4 per cent on US-originating premiums would result in business being moved south. Similar fears were aroused last year by America's decision to expand its risk retention act and make the formation of onshore captives (known as risk retention groups under the act) more attractive.

Bermuda's answer to what was perceived as a major threat to its economy, was to begin negotiations with Washington for its own treaty. That one was eventually signed in july 1986 was no mean achievement for a colony which has no corporate or personal income tax structure and no intention of adopting one. Getting it ratified by Congress was an entirely different matter and not even Bermuda's most powerful supporters in the US could overcome the resistance of a Senate which, after the mid-term elections of last November, fell under the control of the Democrats.

But James Medas, the US Consul General to Bermuda, says the treaty is by no means dead. He says the US has never ratified a treaty in less than 10 months and that most take a good deal longer than that.

"The Bermuda treaty wasn't really defeated so much as held up in our system," says Mr Medas. "It's merely following the normal course and I expect to see the Senate focusing on the treaty again this fall. Certainly the US government's policy is to have a level playing field one way or the other."

Which could mean either that Bermuda gets its treaty or that the Barbadians lose theirs or parts of it. Mr Medas acknewledges that the federal excise tax break granted to Barbados has been severly criticised on Capitol Hill but refuses to speculate on the future of the accords.

Bermuda's insurance managers are more forthcoming. Some privatey believe the island will not get its treaty and that the "loophole" on federal excise taxes in the Barbados agreement was a mistake that will be closed in 1989 when its signatories are allowed to make amendments. And most no longer worry about losing business to Barbados which, at the last count, had about 60 captives.

"The treaty has become a very ho-hum issue for us," says Arthur Deters, vice-chairman of the Reiss Organisation which manages 200 captives worldwide, half of them in the care of its Bermuda subsidiary International Risk Management. "Bermuda may do better with a treaty but it can survive without it. I think its ratification has become more of a PR exercise for Bermuda than anything else. And the federal excise tax break has become a moot point, thanks to the 1986 tax reform legislation in the US."

Tax reform, says Mr Deters, has changed the arguments for going offshore and swept more insurers in the US tax net. "If the tax advantages to operating from Barbados are so good, then why haven't more companies gone there?" he argues. "Our management subsidiary in Barbados has signed up only 13 since the treaty came into force 18 months ago."

Hanna, another of the leading insurance management names in Bermuda which opened an office in Barbados to avoid missing out on the expected rush of business there, has also not seen anything like the level of interest it anticipated. Says president Stewart Grayston: "Barbados has not turned out to be the threat to Bermuda that we all expected."

Instead, the Hanna chief, whose company manages about 80 captives in Bermuda, predicts that the Cayman Islands (360 captives) could well emerge as a strong competitor for captives looking for an offshore domicile. And the biggest threat of all, he says, comes not from competing offshore centres, but from onshore America.

"Vermont has just got its 100th captive, Illinois, which has an insurance exchange, has recently passed captive legislation, Delaware is climbing on the bandwaggon and Canada is also interested in attracting risk management business," says Mr Grayston. "Everybody wants a slice of this business and Bermuda is going to have to watch its costs and keep its regulations flexible to remain attractive."

Horison Insurance, however, is one captive that no longer finds Bermuda attractive. The 24-year-old insurer, owned by Cargill Inc, the US agricultural and commodities group, is closing its Hamilton office on September 11 because of changes in America's tax laws which no longer allow taxes on a captive's profits to be deferred until repatriated to its parent. Earnings are now immediately liable for tax and treated as though they were derived onshore, which is where Horison's management is relocating.

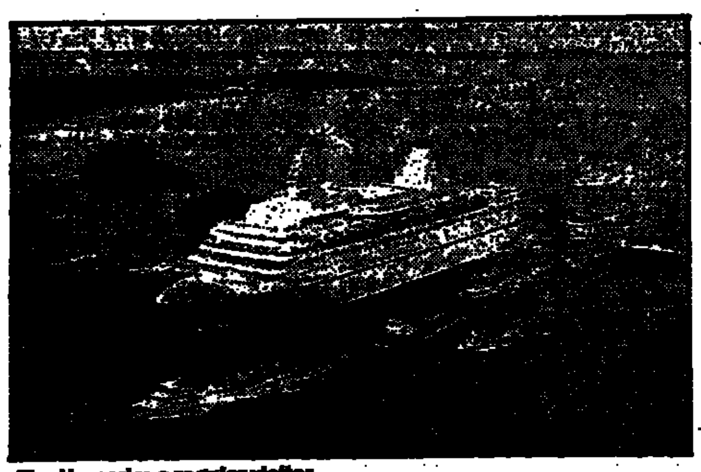
Says Horizon president Ron Peschon: "there is now no advantage to us remaining in Bermuda."

Not even for the golf. Among the reasons why American businessmen have long chosen to invest in setting up a captive in Britain's oldest colony, easy access to well-manicured golf courses less than two-hours flying time from New York has consistently been included.

But things are different now, says Mr Grayston. "Sure you can play golf in Bermuda but you can also play golf in Vermont and you can snow ski there too. Golf is a throw-away advantage. Business has to be the main justification."

And it is. While every capacity remains tight, captives are expected to keep on coming. And not even the current shift towards softer liability and casualty rates in the commercial markets is likely to deter them.

Says Mr Grayston: "There's more of a commitment to captives now than there was previously. The commercial market has stuck it to their customers once too often."



The Homeric: a regular visitor

Roger Scotton

Profile: Mr Charles Kempe

Man in a $700m suit

IT HAD to happen. With 6,000 foreign corporations on its register, Bermuda was bound to be hit with a major insolvency sooner or later, and Mentor Insurance was it.

But little did tenacious accountant Charles Kempe know in the summer of 1985, when he was appointed Mentor liquidator, that he was about to embark on a job that would produce international headlines and a course that would lead him to the centre of one of the insurance world's biggest legal actions.

Now 50, Mr Kempe has grown considerably wiser over the past two years about the ways of insurance companies, lawyers and the Press in general and insolvency practitioners' skills in particular. And he says he is still learning, especially about American law. He is now using American statutes to sue for a massive recovery of funds to pay off hundreds of Mentor creditors.

Time, for the moment, is on his side and is likely to stay there for another couple of years, which is how long the civil action is expected to take to reach trial in the US.

Assuming the final legal battle takes place, it will be fought out in the New Orleans federal court for the eastern district of Louisiana where Mr Kempe and his London-based joint Mentor liquidator Mr Michael Arnold, both partners in the international accounting firm of Arthur Young, began their action in March last year.

They are seeking $700m in compensatory and punitive damages from defendants, including Mentor's US parent Ocean Drilling and Exploration Company (Odeco), several Odeco directors (possibly including the estate of one who died recently) and Bermuda-based Pinnacle Reinsurance, a subsidiary of Lloyd's of London broker C. E. Heath. The liquidators' suit alleges that seven of the defendants devised a scheme to defraud Mentor and its policyholders, using reinsurance contracts issued by Pinnacle to conceal Mentor's true financial condition and allowing it to build up a multi-million-dollar mountain of debt.

The Bermuda court-appointed liquidators' decision to sue in the US has raised complex jurisdictional and country law issues, many of which have still to be resolved.

And their allegations have not only been vigorously and consistently denied but have drawn stinging counter-claims questioning the legal powers of the liquidators and, more controversially, the activities of Mr Kempe's accounting practice. He has also been criticised for beginning an action that effectively undermines the attraction of an offshore insurance and reinsurance industry which has taken years to build up.

Giving his first private interview since starting the suit, Mr Kempe carefully avoided saying anything that could be construed as commenting on the merits of an action to which he now devotes much of his working day. But he clearly regards some of his critics as uninformed and their remarks typical of the kind to be expected in a small market which has still to mature.

"Insolvency work is a fact of commercial life in large jurisdictions and having contracts drawn up under Bermuda law does not immunise the parties against tort litigation in other jurisdictions," he says. "Business in the Western world increasingy crosses national boundaries and it is impossible to conceive that anyone would be allowed to insulate himself in one jurisdiction against his actions in another."

He fiercely rejects criticisms that he has succeeded in removing the gloss from Bermuda's shiny image as an attractive business domicile and argues that, if anything, his work has the opposite effect and boosts investor confidence in the colony. He sees the Mentor suit as an opportunity for Bermuda to refine and improve its business infrastructure, not taint it.

"We cannot afford to be regarded as a centre where activities can be carried on that are not countenanced elsewhere. In the end, Bermuda's capabilities will only be improved by cases of international insolvencies."

He believes the island's legislation, in particular, will be better off for having been tested by a big liquidation. He

Mr Kempe: has lost a bit of sleep

says he has already discovered anomalies in Bermuda's laws through working on the Mentor insolvency.

"For example, there is no statute here dealing with the termination of the policy liabilities of an insurer or reinsurer which is in liquidation. In Britain and the US it is cut and dried. Policy cover ceases once liquidation begins. But Bermuda is relying on common law precedents and it is still possible here to claim against a valid policy after the liquidation has commenced. This does not help with the efficient administration of a winding up."

Nor has it helped the Mentor estate. That anomaly alone has this year cost it almost $40m: a provision against the estimated increase in claims on policies still in force on June 21 1985 when Mentor was forced into liquidation by Bermuda's insurance authorities.

In many ways, Mr Kempe is something of a pioneer. Just 12 months before Mentor collapsed, he became the first Bermuda liquidator to sue for a recovery through the US legal system when he began an action for fraud over the insolvency of a company called Dover Insurance. And he is one of fewer than half a dozen insurance liquidators working in a jurisdiction which, until 1977, had no comprehensive regulations covering corporate insolvency and which has a current untried rulebook that is still barely four years old.

Which accounts for the occasional bout of discomfort. "I cannot, in all honesty, say that I haven't lost a bit of sleep here and there over some of my insolvency problems," he admits.

But Mr Kempe predicts the kinks in insolvency work in Bermuda will soon be ironed out. Lawyers and judges are already talking about the need for a commercial court in a colony which relies heavily on its ability to attract and administer commercial activities. And Mr Kempe believes it is only a matter of time before a professional body is set up to monitor and police insolvency practices which will become increasingly important to the development of international business in Bermuda.

Roger Scotton

Profile: Fidelity

Throwing data around the world

DR DAVID SAUL may not have been a competitor in last month's Bermuda International Triathlon but no one could accuse him of standing still in his working life.

A policy of changing jobs every five years has allowed Dr Saul, an engaging 47-year-old Bermudan-born white, to be a schoolteacher, university professor, education official, and Bermuda's Financial Secretary - all before 1981. In passing he has held a string of Bermudan running records.

It was in 1984, after three years as chief administrative officer of Bermudan financier Sir David Gibbons' private business empire, that he was approached to head Fidelity International, the Bermuda-based mutual fund and investment group.

"I showed no interest at first as it appeared to be just another exempt company," he said. In other words it appeared to be little more than a brass nameplate.

Fidelity, the largest of about 10 Bermuda-incorporated mutual fund groups, is indeed an exempt or offshore company and does have a brass nameplate. Beyond that, it has little in common with the vast majority of entities in the sector, which are managed by third parties on behalf of their owners.

Except, perhaps for keeping a low physical profile. The company was established in 1968 in Pembroke Hall, a derelict seventeenth-century family house on the outskirts of Hamilton.

While the exterior still looks like the seat of one of Bermuda's more venerable families, the interior has been transformed into the headquarters of a global network handling close to $10bn of investors' funds.

The company is linked to the Fidelity mutual fund group in the US, headed by Mr Ned Johnson whose father Edward founded Fidelity and who owns 43 per cent of each concern. Another 51 per cent of each group is owned by its respective senior managers, includng Dr Saul in the case of Fidelity International.

Both companies have experienced strong growth over the past year, due largely to the fact that they had basically gone out and advertised, according to Dr Saul. Increased marketing by the Bermuda group and "our US cousins" had spilled over around the globe, he adds.

Fidelity of the US - 10 times larger in everything except profits, as Dr Saul puts it - deals primarily in US-based mutual funds for US institutions and other investors.

The Bermuda concern, however, handles 15 offshore mutual funds, nine of which are designed for Japanese investors and invests funds overseas on behalf of US pension funds under legislation allowing them partial diversification of their portfolios into overseas equities. The third main area is investing large blocks of money in equities for institutions and governments.

Staffing in Bermuda has risen by about 30, to a total of 90, over the past year to handle growth in the company's business, while worldwide staffing has doubled to more than 600. Pembroke Hall serves as the administrative and computer centre for subsidiaries from Sydney back through the time zones to San Francisco.

In this, its location is ideal, says Dr Saul. The company had originally located in Bermuda for tax reasons, but US tax changes meant that this had no bearing on present reasons for operating in the colony.

Instead, Bermuda's status as an offshore centre, close to the US and with excellent communications, are the crucial factors. After the Wall Street close, prices are transmitted to Fidelity's computers in Bermuda, which recalculates the net asset values of its funds and sends them on in time for the start of trading in Tokyo the following day.

The Bermuda office also runs the book-keeping and accounting for the group as a whole, although in the UK there is a separate service unit for the sizeable unit trust business there.

"That's the future of Bermuda - using its communications and throwing data round the world at 183,000 miles a second," enthuses Dr Saul, whose small office walls display framed tombstone ads for the first Fidelity International funds, the Pacific and the International, along with copious family pictures and a hook waiting for a picture of Mr Johnson Jnr.

He looks on Fidelity International as almost a Bermudian company, given the size of its presence on the island - far larger and more entrenched than its rivals. Ironically, though, its exempt company status prevents it from offering its mutual funds directly to potential local investors. They could, however, invest through a bank.

The company has room to expand its present site, and is likely to erect a new building in the style of the present one. A tunnel will run between the two, close to the quay where Dr Saul parks his boat.

He prefers, however, to run home, choosing a three, six or ten mile route to keep fit for Bermuda's annual marathon.

Andrew Baxter

Shipping registry

Class A grading sought

BERMUDA HAS long battled against inaccurate labels to describe its commercial activities, yet the tax haven tag persists. The country's 200-year-old shipping registry is still referred to as a flag of convenience.

But, as a dependent territory of the UK, the island claims that it rigorously applies British manning requirements to the 105 commercial vessels on its register, which Mr Sidney Stallard, Transport Minister, maintains is of top quality. "It's a misnomer to describe us as a flag of convenience and it's detrimental to our reputation," he says. He suspects the label is temptingly easy to apply whenever a carrier decides to re-flag from any major shipping centre in the grip of powerful trade unions to a small one whose authorities leave unionisation to individual ship owners.

Though he would dearly love Britain to relax its manning rules - "our register would increase almost straight away" - his immediate priority is to get three UK marine conventions applied to the Bermuda registry. The minister says business has been lost to other registries because Bermuda is not included in safety, marine pollution and seamen's training and welfare conventions in operation since the 1970s.

"Our ship surveyors apply these conventions but because they have not been specifically extended to Bermuda, we are unable to get the benefit of being able to encourage shipowners to register here. I know of several cases where we have lost business, where ships have come off the UK registry and by-passed Bermuda in search of another registry because the owners wanted these conventions in place."

Mr Stallard now thinks the conventions could be in force in Bermuda quite soon. He says that talks between British and Bermudian transport officials started in January and that the island is close to meeting the UK's demands.

"Britain has left us in no doubt that it wants to see us taking on more staff for the shipping registry in order to show that we are capable of carrying out surveys properly," says the minister. "We have agreed to use eight marine surveyors, three of them based in Bermuda and the other five in the UK to be called on as required."

With two full-time surveyors on his payroll and one more in the offing, the Transport Minister is confident the conventions will be extended. Already, he has had draft legislation drawn up that would get them onto Bermuda's statute book the minute Britain gives the green light. But he would prefer this to happen sooner rather than later.

Britain, he says, is already in the process of considering a plan to grade all Commonwealth registries on their abilities to survey different classes of vessels. And he predicts there could be some departures from the Hong Kong flag in the run-up to 1997 when China regains sovereignty over the Far Eastern colony. "We just want to be in a position where we can attract all shipowners and to do that we are going to need a Class A grading from the UK. I gather that one British colony is not applying UK manning requirements, but it was made clear to us in London that if we followed that route and went our own way on manning, we must not expect to get that rating."

The prospect of increased revenues and international exposure is the twin goal of Mr Stallard's drive for more registrations. Though he prefers not to talk in terms of profit, the Bermuda Registry last year contributed close to $1m to the Government's coffers. And there are added financial spin-offs in the shape of shipping holding companies which pay government fees and duties and provide work for local banks, lawyers and accountants.

At the end of July this year, the commercial registry stood at 1.9m gross tons of cargo, fishing and passenger vessels, the majority of which, says the minister, were on the UK Register before crossing the North Atlantic to Bermuda. "But it's been higher. At one time we were well over 2m tons but we should be able to surpass that once we get those shipping conventions in place."

Roger Scotton

Banking

Buoyancy offshore

BERMUDA'S THREE BANKS are pushing ahead with their international expansion plans, backed by heavy investment in technology and new, larger locations at home and abroad.

The country's two largest banks, Bank of Bermuda and *Bank of N T Butterfield, have* recently reported increased earnings for the year ended June 30, although the percentage rises vary according to the progress of spending on computers and related equipment.

The much smaller Bermuda Commercial Bank, in which Barclays Bank of the UK has a 32.49 per cent stake, is also expected to show improved profits for the year ending September 30, after a 22 per cent downturn *in 1985-86.*

Given the size of the domestic Bermudan dollar banking market, with a total of some $750m in loans outstanding, and the strict curbs on interest rates - underpinned by exchange controls - it is hardly surprising that the banks should be looking overseas for growth.

A *major factor* in the growth of the banks has been the rapid development of the offshore *business sector over the past 15* years. The banks are incorporated locally, and offshore *banks have been kept out*, due as much to the existing banks' clout as to a wish to preserve *the colony's reputation.*

This has put the banks in an ideal position to service the needs of Bermuda's international businesses. The two sectors' developments have, in fact, been interdependent, as the existence of banks with growing expertise in such areas as investment, currency dealing and trust business is normally an important element in a company's decision to register in Bermuda.

The recently-released Archer report on the economic impact of tourism and international business reports that, in 1985, the three banks generated $83m in net foreign exchange receipts from Bermuda-based operations. Of this, $48.2m was in the form of professional and bank fees paid by international companies in Bermuda.

Bermuda's status as an offshore financial centre also gives the banks a profile very *different from British or US* commercial banks. Although combined assets have grown to about $6.6bn, total loans are only around $1bn.

The relatively low proportions of loans to balance sheet totals also gives the banks the liquidity to be significant players in the interbank market.

According to the Bermuda Monetary Authority, the combined assets of the three banks at the end of 1986 included $830m in cash and deposits with banks, and $3.7bn in time deposits.

Servicing the needs of international clients has long since required the two main banks to set up overseas offices. But, increasingly, they are using their expertise in fee-based, off-balance sheet banking to develop a worldwide banking network seeking business with no Bermudian connections.

In attempting to do this, variations in strategy and timing have emerged. First in the field, by general agreement, was Bank of Bermuda, the largest of the three, which earlier this month announced a 28 per cent rise in net earnings to $25.9m *for 1986-7.*

Mr Donald Lines, chief general manager, describes the three main slices of non-domestic business as investment-related, insurance-related and a variety of trust and exempt company work.

The bank had set itself a target 10 years ago of deriving 60 per cent of its revenues from fees, which had now been achieved with fee revenues up 36 per cent to $63m in the year *just ended. Total revenues,* including $19m of Bermuda-dollar business, rose 25 per cent to $100m, while the balance sheet total grew from $3.3bn to $3.7bn.

The bank was trying to be among the most competitive in the world in areas it knows best, Mr Lines says. It has overseas offices in the Channel Islands, where strong growth in mutual fund activity boosted assets under administration by 74.5 per cent to $552m in the year just ended, and a sizeable trust company in Hong Kong, where assets under administration more than doubled to $1.8bn in the year. In both these centres the *bank has recently moved into* new, expanded offices.

In New York, the bank's Edge Act operation, which is limited to foreign banking activities, mainly handles money transfer and clearing business, and reported its first monthly profit in May after opening in June, 1984.

In London, Bank of Bermuda is seeking Bank of England approval to establish a full-service bank in place of the present clearing and support facility. In general, Mr Lines says, "we've wanted to build from the ground up", rather than make acquisitions.

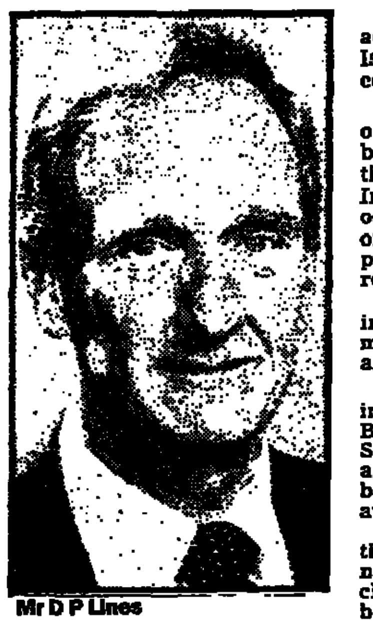
A programme to link all these offices with the bank's Bermuda-based computer is nearly complete, allowing the bank to provide a unified range of services.

One benefit of the computerisation was the introduction during 1986-7 of Bankline, allowing selected corporate cus*tomers to obtain account infor*mation and market data. Eventually it is hoped to allow customers to initiate transactions on-line. Looking ahead, the bank says thought must be given to construction, or acquisition, of an additional building in Bermuda.

At Bank of N T Butterfield, Sir David Gibbons, who became chairman in October, admits that the larger Bank of Bermuda definitely forged ahead in the early 1980s *and was still a* couple of years further advanced on computerisation.

Sir David, who rejoined the bank in May last year after 14 years in government and the Bermuda Monetary Authority, says the bank has been moving rapidly since then with the help of *a new management team*, having officially adopted a strategic plan a year ago.

The most tangible evidence of



Mr D P Lines

this is a $15m six-storey office block under construction just south of the centre of Hamilton, and almost within a stone's throw of Bank of Bermuda's im*posing harbour front headquar*ters.

The new development will serve as the bank's operations centre, housing some of the computer and telecommunications equipment being bought in a $10m-plus systems improvement programme due for completion next June.

The bank has the largest share of the domestic market, which Sir David describes as fully-covered and quite highly developed. However, part of its new strategy has involved taking a hard look at its existing international operations to decide *whether they fit with the* current banking environment.

As with Bank of Bermuda, Butterfield has developed a strong customer base in Hong Kong, counting Jardine Matheson and the Keswick family among its customers. In April it opened a representative office *there, and is awaiting permis*sion to carry out fund administration and other activities short of a full banking licence.

In the UK, it commissioned Mr Ian Hay Davison, former chief executive of Lloyd's of London to look at alternatives to its existing agency business. The result was *last month's* acquisition of Seymour, Pierce, a small London broker, for an undisclosed sum.

This will be used as the vehicle for expanding the bank's London business into foreign exchange, treasury, fund management and Eurobond dealing, *reflecting Sir David's view that* sterling become a creditable currency again.

Butterfield is also looking at a possible presence in continen*tal Europe*, and commissioned a report on future strategy for the US, where it had two representative offices which received subpoenas from the Internal Revenue Service in respect of clients. A different approach is now envisaged.

Elsewhere, the bank has an active presence in the Cayman Islands, and a fast-growing trust company affiliate in Guernsey.

The result of this expansion, once completed, will give the bank near 24-hour coverage of the world's financial markets. *In the present transitional peri*od, however, Butterfield could only lift 1986-7 profits by 10.5 per cent to $15.7m, while assets rose from $2.41bn to $2.55bn.

Last into the domestic banking arena was Bermuda Commercial Bank, formed in 1969-70 and a single-office bank.

"There is absolutely no point in us expanding physically in Bermuda," says Mr Michael Shadrach, managing director, although he stresses that the bank is by no means turning away Bermuda dollar business.

Instead he sees the thrust of the bank's growth plans in financial services, calling on Barclays to provide technical back-up.

Extra staff, including a senior manager from Butterfield, are *being recruited for managing and marketing funds*, and the bank hopes to start an investment managing company tar*geted at the professional inves*tor. This would be aimed worldwide through Barclays.

The affiliation *also* enables BCB to offer clients sophisticated treasury instruments and facilities, and 40 per cent of the banks's 100 staff are on the treasury side.

Another significant contribu*tor to profits is 60 per cent*-owned International Trust Company of Bermuda, which manages exempt companies and offers registrar and transfer agency services.

The banking sector's expansion plans have prompted demands for new capital. Last month Butterfield announced a $20m rights issue and earlier in the year Bank of Bermuda raised the same amount in convertible subordinated notes.

Expansion has also brought a steady rise in staffing levels, taking total employment in the three banks to around 2,250 worldwide.

Even so, the banks remain small in world terms and they cannot, and would not, hope to compete in traditional large-scale cross-border lending. Instead, as Sir David Gibbons puts it:"We've always tried to find a part of the market that we can service more on a boutique ba*sis.*" *At Bank of Bermuda, Mr* Lines says: "We have no ambitions to have offices everywhere in the world."

Domestically, the lack of major opportunities, short of continued installation of automated teller machines, is less worrying to the banks than staffing problems in an island of over-employment and talent shortages.

Sir David notes a tiresome 25 per cent annual turnover in *Butterfield's tellers.* At more senior levels, the banks have difficulties finding the right quality of Bermudian staff, and bringing in non-Bermudians pushes salary levels up.

Andrew Baxter

Banking regulations

Need for change accepted

THE SPEED and efficiency with which Bermuda's lawyers, accountants and civil servants can process an application to set up *an offshore company is normal*ly matched by a more measured approach to legislative change.

Nothing, it appears, is enacted before being discussed in working parties and advisory committees, sometimes delaying legislation for years. On the face of it, therefore, the urgency *with which Bermuda is address*ing the need for proper regulation of the banking sector comes as a surprise.

All the more so as other possible changes to Bermuda's financial system, such as the relaxation of exchange controls or - more putatively - opening up the offshore sector to hitherto forbidden businesses, are the subject of intense, and often rancorous debate. For political reasons a cautious approach to change is therefore inevitable.

Mr Tony Goodfellow recalls that he ruffled a few feathers in the banking community last year, soon after taking over as general manager of the Bermuda Monetary Authority, when he asked why there was no banking supervision on the island.

Notwithstanding the irate response from one senior banker, Mr Goodfellow had a point. At present the banks are required to disclose "very little real information on anything," he says.

In the 1960s, when Bank of Bermuda and Bank of N.T.Butterfield were essentially domestic banks, they felt there was no *need for them to be regulated.* This view prevailed despite considerable international expansion in the past 10 years, especially by Bank of Bermuda, and growing sophistication of banking and fiduciary products and services.

Only two years ago, the banks *fought against the suggestion*, made in an independent study, of closer supervision. Since then, however, there has been a sea-change in attitudes, due principally to the rapid globalisation of financial services which has required stronger supervision by the world's leading regulatory authorities.

Bermuda's banks now realise that without effective supervision at home, and also a clear perception of this overseas, their international growth plans could be stymied.

Bank of Bermuda's current application for a banking li*cence in the UK is one example* of the sort of venture that is unlikely to be approved unless the overseas regulatory authority, in this case the Bank of England, can be assured that there is effective supervision in Bermuda.

The need for change in financial services regulation generally is now accepted throughout Bermuda's financial community and beyond. Sir David Gibbons, chairman of Bank of N.T.Butterfield, *says it is* "right, proper and necessary" that Bermuda should respond to the growing interest shown by overseas authorities in how the island regu*lates its banks.*

At the Bermuda International Business Association, comprising Bermudan banks, accountants and lawyers servicing international business, Mr Stephen Kempe, president, says: "All members feel that the regulatory process has got to be *updated to bring a sense of* credibility to the marketplace, which in this day and age is very important".

At present, the Bank Act of 1969 is the main legislation governing banks. It restricts controlling ownership of the three banks to Bermudians, sets out certain lending limits and audit and reporting standards.

After some debate the government has abandoned the idea of a new quango to regulate the *entire financial sector and opt*ed instead for an expanded and perhaps renamed Bermuda Monetary *Authority.* The BMA already vets applications to set up offshore businesses and supervises the banks and local deposit-taking companies.

'All members feel that the regulatory process has got to be updated to bring a sense of credibility to the marketplace'

Many details remain to be worked out, and Mr Fred Dahl, a former director of the US Federal *Reserve's supervisory* board, is writing a framework for banking supervision on the island.

The format is likely to involve an expanded BMA board, from six to ten members, and a series of advisory committees for each individual sector. One of these is expected to be the present insurance advisory committee, a group of insurance industry members and officials which vets applications to set up in*surance companies, and which* is widely seen as a good example of self-regulation.

Another may look at mutual *funds*, but it is far from clear how much further the new body would extend into the offshore sector.

Mr Goodfellow is confident the new structure will allay the fears of authorities overseas about letting Bermuda's banks in. "We obviously can't have anything as sophisticated or *far-reaching as the Bank of En*gland," he says. "But we must have something that's effective and seen to be effective in the eyes of others."

Mr Goodfellow, who has spent most of his working life with Mercantile Credit of the UK and is expected to head the expanded authority, will be seeking "quite a lot more information" from the banks on currency exposure, bad-debt provisions, the internal structure of the banks and their *lines* of reporting.

He hopes to have parts *of the* new process in place by the end of this year, but it is clear that progress will be in stages. All parties involved are likely to ensure that red tape is kept to a minimum.

In the long term, the breadth and effectiveness of Bermuda's financial services regulation will determine whether the island can develop its tiny stock exchange, for example, which is seen *by some* as one possible new business area. Stockbrokers or jobbers are not allowed to establish offshore companies, a situation which Sir David describes as *fortuitous in* light of recent insider trading scandals like the Boesky affair.

The irony of recent developments affecting bank regulation is that foreign authorities would find little to complain about once they examined the books. Although the banks' capital is small, they are highly liquid, and have never become heavily exposed to *Third World* debt.

While the move towards tighter bank supervision has arisen relatively swiftly, the thorny question of opening up the offshore business centre to foreign banks has been simmering beneath the surface for years.

In the mid-1970s, when Sir David Gibbons was finance minister, he persuaded the Cabinet to reject an independent report proposing that eight foreign banks from various countries be allowed to open for business.

Some in the Bermudan business community *still believe that a dose of competition could* be a healthy development. Mr Robin Spencer-Arscott, president of Frank B Hall (Bermuda), said that allowing foreign banks to do business would have a lot of benefit for insurance companies because it would bring some competition into the banking market.

Mr Goodfellow also believes that such a move, perhaps with a limited number of licences sold to the highest bidder, would be "good for Bermuda," particularly by creating competition for the banks in the investment market and introduc*ing more people.*

However, there is no groundswell of opinion for such a move, and the banks are unlikely ever to let it happen. Mr Donald Lines, chief general manager at Bank of Bermuda - which recently increased to five the number of Cabinet members on its board - said the idea was a joke. "Offshore banks would soak up a lot of Front St office space, hire talent and achieve nothing."

The most contentious issue on the regulatory front is more domestic in its nature and effects - exchange control and curbs on domestic interest rates.

Bermuda has been subject to exchange control regulations of some sort since World War Two, although the present rules, with some minor changes, go back to 1972 when the island left the sterling area.

The controls are intended to recognise the inherent fragility of the Bermudan economy, with its reliance on tourism and international business, and protect the local economy from foreign infiltration.

To contain possible outflows, Bermudians have been restricted to $3,000 per overseas trip, although this may be raised in special cases, while overseas investment is limited to $25,000 a year per adult and is taxed at 10 per cent.

A recent report for the BMA by Mr Graham Maskens, an exchange control expert, concluded that total abolition of the controls would reduce Bermuda's influence over *ownership of local companies* and cause Bermudan interest rates to vary in line with those of the US.

Bermuda's fixed interest rates, based around a 7 per cent lending rate, are *widely seen to* have given the island's small economy considerable stability through years of high interest rates elsewhere, particularly in the US.

But the much improved balance of payments position over the past year, and considerably-reduced interest rates overseas, have led many in Bermuda's business community to suggest the time is right for substantial changes, particularly on overseas investment.

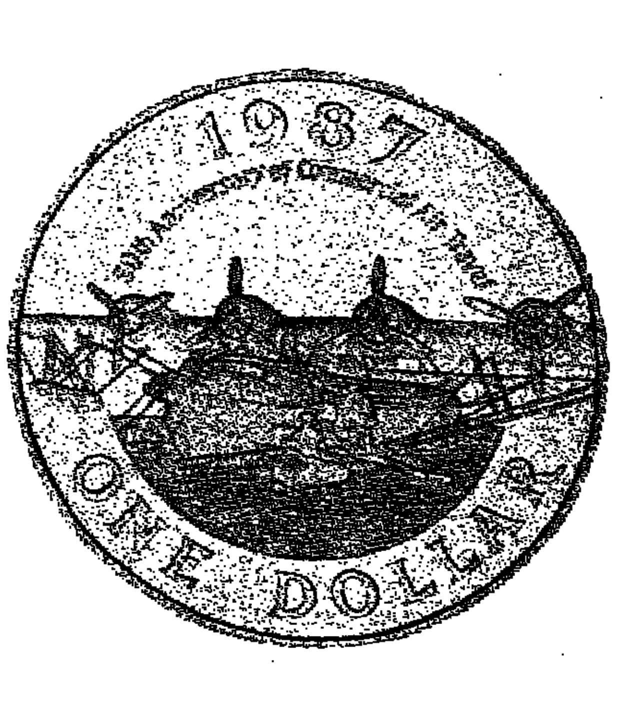
The most vocal opponent of this view, ironically, is Mr Lines, whose bank lost nearly $2m in 1986/7 on its domestic business because of the interest rate curbs, effectively subsidising the local economy. However, Mr Lines believes this is a price worth paying *for the eco*nomic and political stability it achieves.

After considerable debate *within the ruling United Ber*muda Party and Cabinet, this view has eventually held sway. Last month Dr Clarence James, Finance Minister, raised the overseas travel allowance to $5,000 per trip and reduced the form-filling required for obtaining small amounts of foreign exchange.

But the overseas investment limit of $25,000 remained - and would have had to be raised to $69,000 just to keep pace with inflation. *Dr James* is anxious not to see *substantial* outflows of capital eating into current domestic liquidity, and hence reduce the government's ability to substitute Bermuda dollar debt for foreign debt, which is more costly to service.

Andrew Baxter

Coining it



VISITORS TO Bermuda are taking money out of the country in increasing quantities, but are unlikely to feel the wrath of the country's exchange control authorities.

For the money in question is commemorative coinage *forming the basis of Bermuda Monetary Authority's* numismatic programme, which has been actively marketed to tourists and residents over the last two or three years.

The island has produced commemorative coins since decimalisation of its currency in 1970, and the 1987 coin (pictured) is the third in a five-year series of crown-size silver dollars. It commemorates the 50th anniversary of commercial air travel to Bermuda, and features an early commercial flying boat.

The BMA's numismatic revenues rose 25 per cent to nearly $250,000 last year, a figure which will be easily surpassed this year, while profits jumped from $62,600 to $104,550.

Tourism

Quality the keynote

THE BERMUDAN tourism industry has reached another turning point following a near-record year in 1986, the best in purely numerical terms since 1980.

After a disastrous year in 1981, when industrial problems briefly brought the island to a halt, total visitor numbers rose steadily before dipping again in 1984. Last year saw visitor arrivals rise 7.8 per cent over the year to 591,716, and first-half figures for 1987 suggest 1980's record of 609,556 may be broken.

For Bermuda, however, tourist numbers are not in themselves an accurate indicator of the industry's economic importance to the island. "We're not in the numbers game," said Mr Gary Phillips, director of tourism. Visitor spending, despite an 18.5 per cent rise to $422.3m last year, is still down in real terms from 1980 levels.

Correcting this will depend to a great extent on the success of the island's marketing programme not only in attracting the right sort of people to Bermuda but in getting more of them to come in the hitherto quieter parts of the year.

In Bermuda's case, the right sort of people are rich tourists and free-spending US conference delegates. Over half of Bermuda's visitors earn more than $50,000 a year, and half of those earn $75,000 plus.

Last year's evidence suggests that the marketing message is getting through. While the "Gadaffi factor" and the weak dollar were clearly important in deterring Americans from visiting Europe, other alternative island destinations to the south failed to register the gains made by the colony.

The present marketing policy goes back to 1984, when it was decided Bermuda needed to take the initiative in promoting its undoubted physical attractions along with its political and economic stability, in a way that would attract the "up-scale visitor."

Some key tasks, however, remain to be accomplished in 1987 and following years. First, Bermuda must continue the search for new markets in the US, which accounts for 87 per cent of visitors.

While the north-east corridor and mid-Atlantic regions provide the mainstay of Bermuda's tourist business, being in some cases just 1½ hours' flight time away, Bermuda last year identified a growing interest among Californians, a market previously covered from Chicago.

Visitor levels have risen 40 per cent, admittedly from a low base, following recruitment of John A.Tetley as Bermuda's agency. Airlines have co-operated in ensuring Californians can get to Bermuda in the evening of the day they set off.

Bermuda's most famous beach, Horseshoe Bay

Visitors from Virginia and West Virginia are up 17.4 and 16.9 per cent in the first six months of 1987 following the decision to place a salesperson in the area.

The second task is to boost travel from Europe, and thus lessen Bermuda's vulnerability to sharp swings in sentiment among US tourists - largely for reasons beyond the island's control. Mr Phillips said he would be more comfortable if the percentage of visitors from the US fell from 87 to 75 per cent.

In the UK, the marketing effort has been handed over to the consultancy Bryan, Constantinidi and Brightwell, under a five-year management contract.

The reorganisation has allowed more money to be spent on marketing, where Bermuda had "suffered from a low visibility versus the other long-haul destinations," according to Mr Derek Brightwell.

UK visitor arrivals are up 18.6 per cent in the first six months of 1987. In the autumn, British Airways, the only airline to fly from Europe to Bermuda, will increase its service from four to five flights a week, terminating in Tampa rather than Orlando. It is hoped this will increase seat availability for visitors from the UK.

The reorganisation should help to address the different marketing challenges of the UK, where Bermuda is competing in a buoyant long-haul market, and the US, where it is increasingly seen as the venue for a long break.

As for continental Europe, a study has just been completed suggesting what Mr Phillips called a "tremendous opportunity" among affluent West Germans, who would enjoy "a Bermuda-type of experience."

Regular *visitors to Bermuda by Country of Origin

	U.S.	Canada	U.K.	Other	Total
1982	362,583	29,058	15,598	9,388	416,627
1983	390,709	32,402	13,613	10,140	446,864
1984	363,173	32,012	13,600	8,676	417,461
1985	354,347	28,876	13,179	9,459	405,861
1986	396,610	31,980	15,337	14,767	458,694

*Does not include cruise passengers.
Research: Rivka Nachoma.

France, however, where August is the favourite holiday month, is seen as less promising, as Bermuda already takes in as many as it can handle during the high season. No talks will be held with European airlines until numbers pick up from the present very modest levels.

The third area for attention, therefore, is development of the low-season, from mid-November to the end of March. Known as the "rendezvous season" because more people tend to make repeat visits then, it is Bermuda's "only real window of opportunity," according to Mr Phillips, to boost tourism revenues without causing overcrowding.

The 1986/7 rendezvous season saw a 17.6 per cent increase in visitors to 101,000 from 86,000 a year earlier, helping produce a 13.5 per cent rise to 280,928 in the first half of 1987.

Success of this programme again requires different marketing, with emphasis on culture, heritage and events rather than sun and surf.

With hotels and most guest houses full in the summer months, the winter season presents one of the few opportunities for the industry's occupancy rate to be increased from the current 68 per cent.

Another method would be expansion of the convention business, which currently accounts for 23-25 per cent of arrivals. Bermuda would like to bring this to about 30 per cent, but this is unlikely to happen until the US Congress ratifies last year's tax treaty under which conventions in Bermuda would be tax deductible for US corporations.

Ratification would have a tremendous impact, says Mr Phillips. "There are a number of companies sitting on the fence right now, trying to decide whether to choose Bermuda."

The most important task for Bermuda's tourist planners, and for the 5,200 directly employed in the hotel industry, is to ensure that the island remains an attractive, interesting place to visit. Amenities for tourists have developed rapidly over the past 10 years, with a surge in the number of restaurants of all types. Hotel and guest house capacity has, however, been pegged at 12,000 since 1972, the cornerstone of a policy to prevent spoiling the environment.

The moratorium is tightly controlled, and guest houses may increase their beds only if others have been taken out of use and put into the Department of Tourism's bed bank. Ministerial permission is required for a "withdrawal."

Mr Phillips says the industry's occupancy rate would have to rise to 75 per cent before consideration could be given to relaxing the moratorium. Even if it was, however, there is little room for further hotel development.

One of the few remaining areas is the former British dockyard at the island's West End (see accompanying article.) This will provide a berth for large liners such as the QE2, which can only stand at anchor at present, and reduce overcrowding in Hamilton.

Some critics of the Government's tourist policy already feel that development has gone far enough. Mr C.V. "Jim" Woolridge, former Tourism Minister and now a vociferous backbencher, regrets the passing of the old, sleepy, Bermuda, and says a lot of its friendliness and quaintness is being lost because of overcrowding.

He also criticises fare-cutting by some of the cruise lines calling at the island, which encourages the less affluent to visit.

Cruise arrivals, up 29 per cent in the first half of 1987, are less important to Bermuda because passengers sleep on board. Onshore, they spend about $50 a day, against $1,000 for the average five-night stay by air arrivals.

While many would disagree with Mr Woolridge's views, there is evidence that retailers relying directly on tourist spending are seeing very little real growth in sales this year, in contrast to other sectors of the economy.

US visitors have traditionally been drawn to the upmarket Front Street stores selling British woollens and other clothing at prices up to 25 per cent less than at home.

A recent finding by one of the Tourist Department's exit surveys conducted at the airport found that only 36 per cent of travellers found the shopping as good as expected. Mr Woolridge believes many upmarket visitors are put off by cheap T-shirts.

In true Bermudan style, a Government thinktank involving hotels, airlines and others in the industry has been established to decide how to keep Bermuda at the "pinnacle of destinations," as Mr Phillips calls it.

If the success of last month's world-class triathlon event is anything to go by, there will be more big events to keep Bermuda on the map. The triathlon, which attracted more than 200 athletes, will be shown on the US ESPN network in October, sandwiched between adverts extolling Bermuda's attractions.

Andrew Baxter

West End Development Project

Dockyard will bloom as national park

MORE THAN half a million tourists visit Bermuda every year, yet only a few thousand go to one of the most historically significant spots on the island: the long-abandoned naval dockyard at the west end of the colony.

And it is not hard to see why. Abandoned is an apt description for what was once a bustling centre of employment with a workforce of over 2,000. Many of the original limestone buildings, built 100 years ago by convict labourers and Bermudian workers, are now used as warehouses—apart from one which houses Bermuda's Casemates prison. The only purpose-built tourist attractions are a maritime museum and an arts and crafts centre. The area has the atmosphere and curiousity value of a graveyard.

But, slowly, the dockyard is coming alive. The Bermuda Government, which bought the 214-acre site from Britain in 1953 for £900,000, has stopped trying to turn it into a freeport for a re-export industry that never got off the ground. Instead it has approved plans to develop what Mr Bob Tucker describes as a national park there.

Mr Tucker is general manager of the West End Development Corporation (Wedco), a semi-autonomous body charged with overseeing the dockyard's complete transformation by the year 1997. Wedco was formed in 1982 on the strength of recommendations contained in a study by the UK's Environment Ministry. The Ministry study team, from Britain's Peterborough New Town Development Corporation, provided a framework for further studies and for what now rank's as Wedco's "bible"—the 1984 West End Development Plan, which proposed the spending of $92.4m on the area over the next decade, more than $20m of it from the public purse.

But the time for studies and proposals is over and Mr Tucker and his chairman Kit Astwood are now assembling a team of doers rather than conceptual planners. The doers have already done a great deal. The $2m first phase of a marina has already been completed. A deep-water cruise ship dock should be finished by the spring and work will begin before the end of this year on the construction of 200 homes at the west end.

"Our objective is to attract people to the west end," says Mr Tucker. "I mean locals and tourists. At the moment fewer than 50,000 people, mostly tourists, visit the dockyard every year and most of those go to the maritime museum. We want about half of Bermuda's tourists to spend at least a day there."

Attracting an additional 250,000 people a year will not be easy on a holiday island where most tourists spend their time on the beaches, the tennis courts and the golf courses. The dockyard has none of these. Nor can it yet boast a hotel, though Mr Tucker says one is likely to be considered in the next five years.

But the cruise ship facility will help boost the body count next year at the rate of about 1,000 passengers a visit.

Wedco is keen to have the deep-water berth ready to receive its first cruise ship, the Chandris Line's Galileo, on May 1 1988, and it hopes to sign up other cruise operators that are unable to get berths alongside the capital of Hamilton or at the east end town of St George's.

"We have a commitment from Chandris that it will use us next year as soon as we're ready," says Wedco's general manager. "But we've made it clear that we are not yet ready to sell the west end as a tourist destination and won't be for another five years."

By May, Mr Tucker also hopes to have developed a small area of about 10,000 sq ft around the dockyard devoted to retail shops and restaurants.

"We're just now in the process of looking at how many shops we can accommodate and what sort of outlets we need. We've had a lot of applications from businesses in Bermuda so there's no shortage of interest."

Wedco's approach to all its commercial tenants is to agree on a minimum rent and a share of gross revenues on top—a philosophy it says is vital to the long-term success of the dockyard project.

"Our feeling is that we need to be partners with the private sector rather than just having a landlord-tenant relationship in which each grabs as much as he can at the expense of the other and sometimes at the expense of Bermuda. We want a working relationship which is not going to make everybody happy but is going to stand more of a chance of success in creating jobs and revenues. And, in time, we hope this approach will help us become self-funding and that we won't have to rely on operating grants from the Government."

"In time" is a commonly-used phrase at Wedco, whose chairman believes that the last thing Bermuda needs is a development project that will be pushed along at such a speed that it drains the colony's fragile economy and applies avoidable pressure on a service infrastructure built to accommodate a resident population of 56,000.

Says Mr Astwood: "We don't want a big project like this being completed overnight. It has to be developed at a pace that will suit the economic growth of Bermuda. Imagine the problems we would face if we had to issue hundreds of work permits to a developer bringing in foreign construction crews. For a start there would be the question of where they would all live."

The publicity value of a grand opening, however, has not been overlooked by Mr Tony Smith, the businessman who has built the 80-berth first phase of the marina and secured a 21-year lease from Wedco to operate it. He hopes America's Cup champion Dennis Conner will be on hand to cut the marina's ribbon next year. Mr Smith says that Mr Conner, who skippered the Stars & Stripes yacht to victory in the 1987 America's Cup, is interested, provided the fee is right.

In addition to new residents and tourists, Wedco is also looking at the possibility of attracting office workers, not that they will have anything to work in for some years to come.

To many native Bermudians, the west end has traditionally offered an escape from the island's overcrowded central parishes: the nearest thing to the countryside on an island of less than 21 square miles. Most locals regard a trip to the dockyard as a major outing, involving a drive of up to 45 minutes.

"That mentality might have to change if offices start being built there," says Mr Tucker. "It's also an attitude we'll have to try to change if we want to get local people to spend more of their leisure time there."

Roger Scotton

Futures exchange

World yet to be taken by storm

WHEN INTEX, the world's first fully automated futures exchange, opened for trading in October 1984, there were many in the futures business - and in Bermudan financial circles - who were sceptical about its chances of survival, let alone its ability to make an impact.

Nearly three years later, the exchange, which operates from a modest office in central Hamilton, *is still up and running*. But Mr David Thompson, general manager, freely admits that Intex "hasn't taken the world by storm". Despite the advantages of an automated system - trades can be executed accurately in three seconds or less from anywhere in the world in a fully interactive process - futures trading is still dominated by the time-honoured method of pit-trading and open outcry.

Now, with other exchanges fast developing their own automated systems, Intex is launching a drive to sell its present *products more, and ensure its* long-term survival by launching new products and services.

Success *in this would be im*portant not only *for* Intex's backers, investors in the US, Bermuda and the UK who have yet to see a profit from the venture after investing $14m-15m in technology, but for Bermuda

With the island's time-zone position, four hours behind London and one ahead of New York, *an automated international* stock exchange could be a possibility, Mr Thompson suggests.

Intex began trading with one contract, in gold, which was dropped early last year in recognition of the heavy competition from the established futures centres.

In May 1985, the exchange launched its Ocean Freight Rate futures contract, based on the *Baltic* Freight Index (BFI) and fungible with Biffex, the Baltic International Freight Futures Exchange. Positions in *fungible futures products* can be opened in one market and closed somewhere else.

With the contract based on a service, rather than a physical or financial asset, it is "quite complex, somewhat difficult to understand," according to Mr Thompson.

Futures trading thrives on volatility, and despite the quite frequent sharp movements in freight rates, emphasised when last year's Chernobyl nuclear catastrophe raised expectations of major Soviet grain imports, Mr Thompson confesses to being "a little bit disappointed" by *the contract's performance to* date. Trading is averaging 100 contracts a day, with each contract worth 10 per point of the *underlying index*.

The exchange is slowly winning support from the shipping industry, which is an important precursor to attracting speculative trading and hence increasing liquidity. A lot of potential risk capital remains untapped, Mr Thompson believes.

The second Intex product, launched last December, is based on the Financial News Composite Index (FNCI), devel*oped by the US Financial News* Network. FNCI tracks 30 big New York Stock Exchange stocks and is very similar to the *Dow Jones Industrial Average*.

The Intex contract trades in two versions, a larger product priced at 100 times the underlying index, or about $200,000. This has had little or no impact, whereas *the smaller* contract, priced at 10 times the index, has attracted a reasonable level of interest, *notably in Europe*.

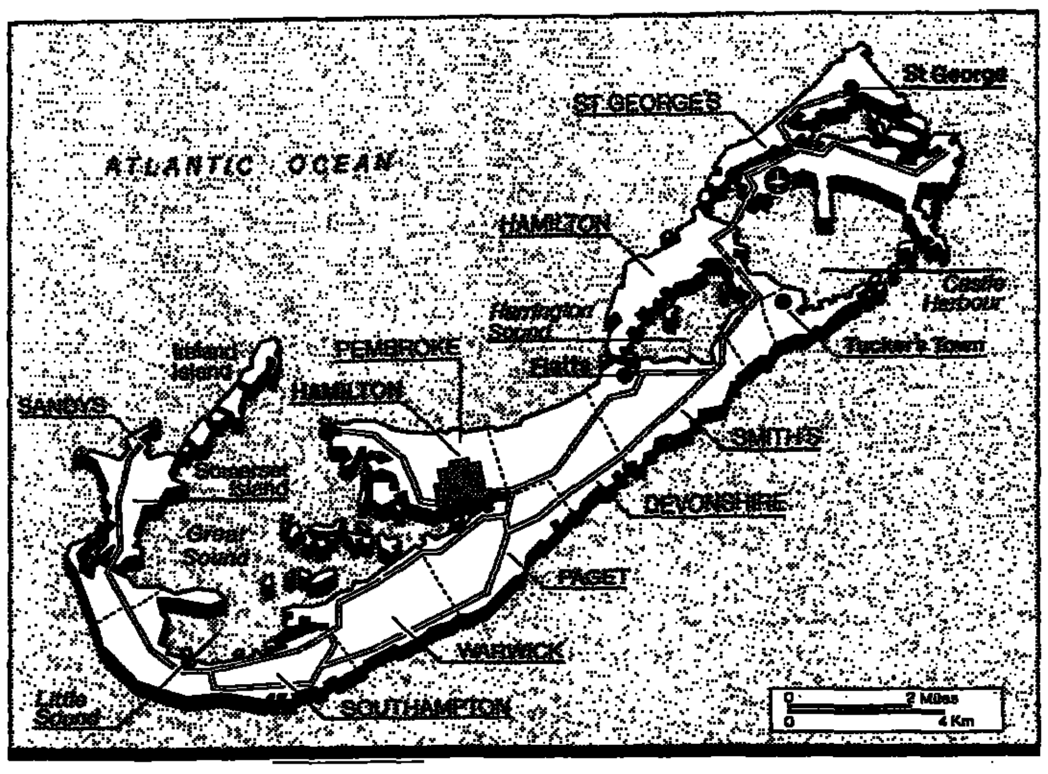
Trading is running at an average of 200-250 contracts a day, although the record is 1,000. A *small base of market-makers* has been established, and Intex is continuing to pursue new players among institutions such as pension funds.

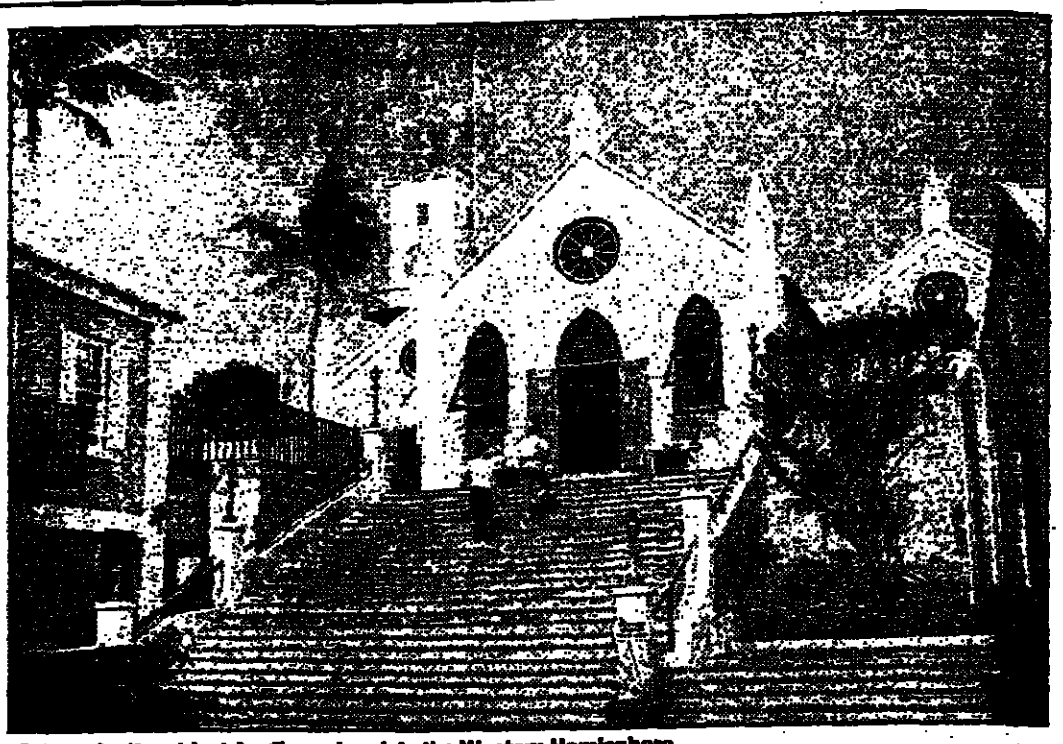
Intex has a limit of 600 members, who pay $20,000 to join. So far, 265 memberships have been sold, but only 40 are trading on the system. Converting members from spectators into players will depend on continued expansion of the smaller FNCI contract, giving Intex a base from which to develop new products. *Mr* Thompson says an interest rate contract is not in*conceivable*.

Other possibilities include extended trading hours, allowing London traders to use the *system in their mornings*, and licensing the proprietary Intex software to other exchanges, which might use it to extend their own trading hours.

Mr Thompson remains optimistic, and believes that the system's integrity and cost advantages have been proven. "Everybody knows that this kind of venture could become profitable quite quickly. It's do or die," he adds.

Andrew Baxter





St Peter's, the oldest Anglican church in the Western Hemisphere

Compiled by **Rivka Nachoma**

Business traveller's guide to Bermuda

Currency: Bermudan dollar, 100 cents:Bd$1 (linked to US$ which *is also in general circulation*)
Currency regulations: no restriction on amount of foreign currency, providing it is declared upon arrival. Export of Bermudan dollar restricted to maximum of $250
Entry requirements: passports are not necessary for citizens of the US or Canada. US citizens must have one of the following documents: valid or expired passport, birth certificate, US voter's registration card with bearer's signature, US naturalisation certificate or US alien registration card. Canadian citizens must have one of the *following*: passport, birth certificate or a certification of citizenship

A valid passport is required for citizens of all European countries. Visas are not required except by eastern block nationals and those from Argentina, Nicaragua, Iran and Cuba

All visitors entering Bermuda must hold a ticket for return or onward travel to a country where they have right of entry. Visitors may remain up to three weeks from arrival. Permission to stay longer granted through *immigration officials at Bermu*da airport on arrival. To stay indefinitely, it is necessary to apply in advance to the Chief Immigration Officer, Ministry of Home Affairs, PO Box 1364, *Hamilton* 5, Bermuda
Customs allowances: import *of* 200 cigarettes, 50 cigars, 454g tobacco, 1.11 litres of spirits, 1.11 litres of wine
Time: Bermuda is one hour earlier than eastern standard time (one hour earlier than New York and four hours later than London). Daylight savings time from the last Sunday in April to the last Sunday in October
Airlines: American Airlines, British Airways, Eastern, Delta and Pan Am
Car hire: not available. use a taxi or rent a moped or bicycle
Business hours: offices: 09:00-17:00 *(Monday to Friday);shops:* 09:00-17:30 (Monday through Saturday, with some local variations); banks: 09:00-15:00 (Monday to Friday, *also open Friday* 16:30-17:30)
Newspapers: Royal Gazette (daily), Mid-Ocean News and Bermuda Sun (both weeklies, published on Friday)
Climate: semitropical; December through March average temperature 68 deg f; July through September 84 deg f; humidity ranges from 70 to 80 percent
Holidays observed: (movable dates) Good Friday, Queen's *Birthday (Mid-June), Cup Match* and Somers Day (the Thursday and Friday before the first Monday in August), New Year's Day (Jan 1); *Bermuda Day (May 24)*;

There is no car hire

Remembrance Day (Nov 11); Christmas Day (Dec 25); Boxing Day (Dec 26)
Public holidays falling on a weekend are usually observed the following Monday
Water: tap water is safe to drink
Electricity: 110 volts, AC, 60 cycles
Credit cards: Mastercard, Visa, American Express, Diners Club
Vaccinations: only smallpox, if arriving within 14 days from an infected country
Useful addresses/telephone numbers: (when in Bermuda, dial only the last five digits)
Tourist information office: Old Town Hall, Hamilton 5-23 (809).
Additional telephone numbers: police: 911; fire: 900; ambulance:6-2000; hospital:6-2345; weather:977; "What's on in Bermuda":974; Cable and Wireless office:5-4777; taxi:BTOC 2-5600, Radio 5-4141
Hotels: the Belmont hotel, golf and country club: PO Box WK 251, Warwick WK BX. Tel: 1(809)236-1301. (Rates: depending on the season, from $115-380 European Plan)
Bermudiana hotel: PO Box HM 842, Hamilton HM CX. Tel: *1(809) 295-1211. (Rates, depend*ing on the season, from $115-200 EP)
Elbow Beach hotel: PO Box 455, Hamilton HM BX. Tel: 1(809) 236-3535. (Rates, depending on the season, from $164 - 370 Modified American Plan)
Grotto Bay Beach hotel and tennis club: 11 Blue Hole Hill, Hamilton Parish CR 04. Tel: 1(809) 293-8333. (Rates, depending on season, from $180-270 MAP)
Marriot's Castle Harbour resort: PO Box 841, *Hamilton HM* CX. tel 1(809) 293-2040. (Rates, depending on the season, from $180-220 EP)
The Princess: PO Box 837, Hamilton HM CX. Tel:1(809) 295-3000. (Rates, depending on the season, from $140-630 EP)
Sonesta Beach hotel: PO Box HM 1070, Hamilton HM EX. Tel: 1(809) 238-8122. (Rates, depending on the season, from $168-298 MAP)
Southampton Princess: PO Box 1379, Hamilton HM FX. Tel: 1(809) 238-8000. (Rates, depending on the season, from $210 - *515 MAP*)
Restaurants: Paget Parish: Fourways Inn (French). Tel: 236-6517, reservations a must. *Tavern on the Green* (Continental). Tel: 246-7731, reservations suggested

Pembroke Parish, City of *Hamilton: Atrium (Bermudian)*. Tel: 295-8592, reservations suggested. Chopsticks (Chinese). Tel: 292-0791, reservations a must. Fisherman's Reef (seafood). Tel: 292-1609, reservations suggested. Lobster Pot (seafood). Tel: 292-6898, reservations are essential. Loquats (Continental). Tel: 292-4507, reservations suggested. New Harbourfront (Continental). Tel: 295-4207, reservations suggested. Once upon a Table (French). Tel: 295-8585, reservations suggested. *Penthouse* (French). Tel: 295-3410, reservations a must. Romanoff (French). Tel: 295-0333, reservations suggested. Roses (Continental). Tel: 295-1211, reservations a must. Tiara Room (Continental). Tel: 295-3000, reservations are essential. La Trattoria (Italian). Tel: 295-1877, reservations suggested. Hamilton Parish: Mikado (Japanese). Tel: 293-2040, reservations essential. *plantation (Bermudan)*. Tel: 293-1188, reservations suggested. Tom Moore's Tavern (Continental). Tel: 293-8020, reservations essential. St. George's Parish, town of St. George: Carriage House (Continental). Tel: 297-1730, reservations suggested. Fort William (Continental). Tel: 297-0904, reservations suggested. Margaret Rose (French). Tel: 297-1200, reservations essential

Southampton Parish: The Greenhouse (French). Tel: 238-8122, reservations essential. Newport Room (Continental). Tel: 238-8000, reservations essential. Waterlot Inn (Italian). Tel: 238-8000, reservations necessary. Windows on the Sound (Continental). Tel: 238-8000, reservations suggested. Tipping: to 15 per cent (if not included in the bill); porters $1.